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SHORT-TERM MARITIME PROMOTIONAL PROPOSALS

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

SHORT-TERM MARITIME PROMOTIONAL PROPOSALS

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SHORT-TERM MARITIME PROMOTIONAL PROPOSALS

THURSDAY, AUGUST 9, 1984

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: David Dye, staff counsel, and John Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. The Merchant Marine Subcommittee is meeting today to take testimony on Senate amendment No. 3386 to S. 1234. The amendment, which is in the nature of a substitute to the bill, contains four merchant marine promotional initiatives:

First, allowing the use of capital construction funds, CCF moneys, to construct vessels for use in the coastwise trades, excluding inland waterways;

Second, allowing subsidized liner operators to build or acquire foreign vessels for an 18-month period;

Third, establishing programs to replace or upgrade inefficient vessel engines; and

Fourth, reflagging of two foreign-flag passenger vessels, the so-called Cunard bill.

As I noted when I introduced this package, these are modest short-term measures designed to give partial aid to our ailing maritime industry. Like any palliative, they will not cure the deeper malaise. They are intended, instead, to give a little breathing room as we attempt to find an industry consensus necessary to address these problems in a more comprehensive and permanent way.

There are significant differences, even perhaps contradictions, in the way this industry perceives its best interests. Those differences and contradictions are reflected in the Congress and at all levels of public policy making. Any solution, either for the near term or over the long haul, will require a good deal of compromise and perhaps a bit of sacrifice for the future health of the industry as a whole.

The measure before us today is a working draft of an attempt to balance the near-term needs of each segment of the industry. I would be the first to admit that it is not perfect in any way in that

regard. For that reason, we want to welcome suggestions on how it might be improved, modified or expanded or changed in any way, to take the first step that I think is absolutely necessary.

I would yield to my friend from Hawaii if he has an opening statement.

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. Mr. Chairman, I wish to commend the distinguished chairman of the subcommittee for his attempt to seek solutions to the serious problems facing the U.S. maritime industry. Everyone familiar with the task before us knows how complex and difficult it is. They are also aware that success has eluded us so far.

Yet we must continue to seek answers if our merchant marine is to regain the necessary vitality to serve as our fourth arm of defense and carry a substantial portion of our international cargoes. Our attempt to find solutions can only be successful, however, if the several segments of the industry recognize that there has to be some give and take by everyone and that this spirit of reciprocity can only prevail in an atmosphere of cooperation and goodwill.

Whatever the merits of the proposal we are considering today, I believe we will have made substantial progress toward our ultimate goal if this hearing generates that kind of atmosphere.

Thank you very much.

Senator STEVENS. Senator Gorton.

OPENING STATEMENT BY SENATOR GORTON

Senator GORTON. Thank you, Mr. Chairman.

I feel it appropriate, of course, to deal with several subjects at the same time, but I cannot let even the beginning of this hearing go by without expressing the strongest possible objections to the so-called Cunard bill, which is a part of this proposal, which I can possibly voice.

It is very obviously special interest legislation, designed to give one operator a windfall advantage available to no one else in the United States. It would allow the use of tax benefits which were enacted 3 years ago to encourage domestic construction of passenger vessels for a dramatically different kind of operation, and it would destroy any possibility of the construction of passenger vessels in the United States.

It is obvious that a prospective operator is not going to engage in the kind of commitment necessary to do so if it is faced with the prospect of competing with foreign hulls which are given special privileges. In fact, people are acting on the encouragement provided by the 1981 tax law changes and hoping construction in U.S. yards will happen.

One of the proposals with Marine Power & Equipment in Seattle for two ships is on hold and may never happen. But the contract with the Tacoma Boat Co. is a real contract. It calls for the construction of one new 800-passenger ship, to be named the *Galveston,* and the renovation of the *Monterey,* now mothballed in San Francisco. The Bank of America has agreed to provide equity financing. The operator has its title 11 application in at the Maritime Administration.

The cost for construction of new vessels is about $100 million, which will provide about 400 jobs during peak construction and another 150 to 200 through subcontracting, and will use American steel.

Dick Hadley, the owner of the *United States,* continues to proceed with his plans. In January he signed a letter of intent with Norship Co. Financing for this $180 million project is under arrangement by the New York investment firm of Morgan Stanley, and he expects to start service in September of 1986.

It goes without saying that each of these opportunities would be totally destroyed by this portion of the bill and, as I have already indicated, it is designed for special benefit to one operator, to the disadvantage of all the rest. Unfortunately, it is my view that the controversial and negative nature of that element of this proposal overshadows some of the ideas in this bill which seem to me to be quite appropriate and very good ideas.

Thank you.

Senator STEVENS. Our first witness this morning is Adm. Harold Shear, Maritime Administrator of the Department of Transportation.

STATEMENT OF ADM. HAROLD E. SHEAR, ADMINISTRATOR, MARITIME ADMINISTRATION

Admiral SHEAR. Good morning, Mr. Chairman and members of the committee.

I have a prepared statement which I would like to submit for the record.

Mr. Chairman, members of the Subcommittee on Merchant Marine, I appear before you this morning to present the views of the administration with respect to the proposed legislation to be known as the Merchant Marine Promotion Act of 1984.

Mr. Chairman, the administration and the Congress have made significant strides in attempting to revitalize the maritime industry. The enactment of the Shipping Act of 1984 reflects the most significant legislation in this regard to date.

All agree that more needs to be done. While the proposed legislation represents a thoughtful attempt to take some significant and beneficial action, the problems of the industry would not be eliminated by enactment of its provisions. Further, the administration is unable to support those measures in the proposal that, by increasing Government expenditures, would have adverse budgetary consequences.

We strongly support section 3, which would amend the Merchant Marine Act of 1936, to authorize subsidized U.S.-flag liner operators receiving or applying for operating differential subsidy to construct or acquire liner vessels outside the United States.

The Secretary would have to find that any acquired foreign vessels is fewer than 3 years of age. The authorization would expire in 18 months, but would permit vessels so obtained to be eligible to receive CDS and immediately to carry perference cargoes.

Mr. Chairman, as you know, historically, subsidized operators have constructed their vessels in the United States with the aid of construction-differential subsidy [CDS]. Public Law 97-35, approved

August 13, 1981, added a section 615 to the Merchant Marine Act, 1936, pursuant to which subsidized operators or prospective subsidized operators could build vessels abroad and still be eligible to receive ODS and immediately to carry preference cargo. The Secretary had to find that the operator's request for CDS could not be approved due to unavailability of CDS during fiscal year 1982. Congress intended by that legislation to assist subsidized operators in meeting their contractual obligations to replace overaged ships. Because of restrictions placed on authority for fiscal year 1983, the authority provided by section 615 expired for all practical purposes after fiscal year 1982. Authority in section 134 of Public Law 98–151, approved November 14, 1983, provided similar, but limited, permission for two U.S.-flag operators.

The proposed legislation to amend section 615 represents one of the elements of the administration's promotional program. The administration continues strongly to support build-foreign authority for U.S. operators. However, this legislation, unlike our proposal, would exclude bulk vessels and unsubsidized operators from its coverage.

We urge broadening the proposed authority to include bulk vessels and to allow nonsubsidized operators of foreign-built vessels to document or redocument their vessels under the U.S. flag with immediate eligibility to carry preference cargoes on terms comparable to those accorded subsidized U.S.-flag operators.

Section 2 of the proposed legislation would amend the Merchant Marine Act of 1936 to extend the tax deferral benefits of the capital construction fund to the U.S. coastal and intercoastal trades. The administration also supports this provision of the Merchant Marine Promotion Act of 1984.

As members of this subcommittee know, section 607 of the Merchant Marine Act, 1936, permits a U.S. shipowner to defer the tax on certain income from so-called eligible vessels. An eligible vessel, which generates the tax-deferred funds, means any vessel constructed or reconstructed in the United States, documented under U.S. law and operated in the foreign or domestic commerce or fisheries of the United States. The shipowner deposits these funds into a CCF for use in acquisition, construction, or reconstruction of so-called qualified vessels or related complement of barges and containers or payment of principal indebtedness on such vessels or complement. A qualified vessel, for which these funds can be spent, means any vessel constructed or reconstructed in the United States, documented under U.S. law, and operated in the foreign, Great Lakes, fisheries, or noncontiguous domestic trade of the United States.

The proposed legislation would allow expansion of the benefits of the CCF so that qualified vessels could also operate in the coastal and intercoastal trades. With this addition, the CCF benefits would extend to all domestic trades, except the inland waterways.

This legislative initiative has the strong support of the administration. At the present time, the owners of U.S.-flag vessels operating in the coastwise or intercoastal continental U.S. trades are in the anomalous position of being authorized to set up a CCF, but are precluded by statute from using it for the construction of vessels for these same trades.

Sections 4, 5, and 6 of the proposed legislation would generally provide for a 3-year fuel conservation program pursuant to which propulsion machinery on certain U.S.-flag merchant vessels would be replaced or upgraded. The Secretary could pay up to half the cost of upgrading or replacing the propulsion machinery on certain U.S.-flag merchant vessels if the grant will provide the maximum engine room automation realistically attainable and result in a fuel saving of not less than 25 percent.

The Secretary could also make use of an energy conservation account at Treasury established for making energy conservation grants under section 4 and for the purchase of vessels for the National Defense Reserve Fleet pursuant to section 5 of the bill.

Section 6 of the bill would provide for an energy tax credit of 15 percent of the contract amount, in addition to the standard investment tax credit now available, to a vessel owner who entered into such a fuel conservation contract with the Secretary.

Mr. Chairman, the administration appreciates the efforts of the Congress to develop a program to revitalize the U.S.-flag fleet. However, any such program has to be considered in the broader context of the immense current drive to control Federal spending and reduce the Federal deficit.

Therefore, because the energy conservation account and energy tax credit would adversely affect the Federal budget, the administration cannot support this proposal. Furthermore, we object to it to the extent it provides for the re-engining of Jones Act vessels. The proposal would disturb the historical dichotomy between the subsidized foreign flag fleet and the unsubsidized Jones Act fleet.

In addition, we have several other concerns about the proposals contained in sections 4, 5, and 6. First, we note that re-engining is not economically feasible for a large number of ships in the fleet. Second, the administration opposes further subsidies, such as the 15-percent energy tax credit, which typically are hidden from scrutiny during the annual budget process.

Finally, as to the purchase of additional vessels for the National Defense Reserve Fleet, since the Navy is already acquiring a significant number of vessels for the Ready Reserve Fleet, the authority provided in this legislation is not necessary.

Finally, Mr. Chairman, section 7 of the bill would provide for U.S. documentation of the *Cunard Princess* and *Cunard Countess,* with the privilege of engaging in the coastwise trade. The administration has not taken a position on this controversial legislation. We continue to weigh the advantages of immediate new seafaring employment and additional U.S.-flag presence in the cruise market against the disadvantages of jeopardy to the cabotage laws and possible loss of work for U.S. shipyards.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions which you or other members of the committee may have.

Senator STEVENS. Thank you, Admiral.

Briefly, have you ever had a status report on the build-foreign authority that was enacted in 1981, and could you tell us how many ships that were authorized were actually put into construction or under contract?

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Admiral SHEAR. Yes, sir, I would be happy to address that. Actually, 36 applications were received, and as of the moment five of the six operators who made those applications have ships either delivered or under contract or under construction.

There are at the moment, of that total, 21 ships which either have been delivered or are under construction, in various phases of construction.

Senator STEVENS. And they will all be operated as U.S.-flag when they are received by those operators, right?

Admiral SHEAR. That is correct. They are all operated as U.S.-flag, with U.S. crews.

Senator STEVENS. You have supported that portion of the bill which would have a new window for build-foreign authority, right?

Admiral SHEAR. We support that portion of the bill most vigorously.

Senator STEVENS. Do you have any estimate of how many people would move forward, how many entities would move forward, if there were a new window for that authority?

Admiral SHEAR. I am able to give you some general estimates. Over the next 3 years, there will be 30-odd ships which will be reaching the end of their economic life. They will not necessarily be replaced on a 1-for-1 basis. This is in the liner trade.

In addition, in the bulk trade, there will be some applications, but it is difficult to estimate how many. In addition to ships which have reached the end of their economic life, some operators will need to update their fleet as rapidly as possible from breakbulk ships to modern, highly efficient diesel-power liner vessels, if they are going to be competitive in the world trades. So an overall figure would be in the 30- to 40-number range.

Senator STEVENS. What is your general feeling about the status of the U.S.-flag and U.S.-owned operations as far as the foreign fleet is concerned.

Admiral SHEAR. Are you referring to the flags of convenience, sir?

Senator STEVENS. I am referring to the status of the U.S.-flag fleet in the sovereign trades. How adequate is it to meet our own needs?

Admiral SHEAR. Our fleet today is in large measure obsolescent. It has a very high percentage of steam turbines, which are expensive ships to operate and to crew. We badly need to replace those ships in light of the types of ships we must compete against in the world trade routes at this time.

Those ships are highly efficient, diesel powered, heavy duty, capable of burning the heaviest grades of oil, with small crews of about 20, whereas we are forced to compete with our older, steam-powered vessels, with crews that are nearly twice that size. We simply must cut down to a competitive fleet if we are going to be able to operate efficiently and competitively in the years ahead.

Senator STEVENS. Thank you very much.

Senator Inouye.

Senator INOUYE. I thank you very much, sir.

I would like to ask a few questions on breaching the Jones Act. I note that the administration has supported H.R. 89, which would

breach the Jones Act by permitting foreign-built vessels to get into the Puerto Rico-mainland U.S. trade.

What will your position be if similar proposals were made for trade to Hawaii, Alaska, Samoa, and Guam?

Admiral SHEAR. Referring to the H.R. 89, Senator Inouye, the administration supported that bill only if there were not U.S. ships to engage in that trade. Over the past 3 years, the administration has consistently taken the position of solid support for the Jones Act. That has been expressed several times by the President himself.

I assure you that the Jones Act will be fully supported by the administration in the future.

Senator INOUYE. There are no American-flag vessels going to Guam or Samoa. Would you support that?

Admiral SHEAR. There are American-flag vessels going to and from Guam today.

Senator INOUYE. Not passenger ships.

Admiral SHEAR. No; not passenger ships. Is your question would we support——

Senator INOUYE. Something like the Puerto Rican proposal.

Admiral SHEAR. Well, I must give you a general answer.

Senator INOUYE. Well, give me any answer.

Admiral SHEAR. The reason we supported the Puerto Rican situation was that there were no American-flag vessels to participate in that trade. The provisions of the bill provide that if there are American-flag vessels to participate, foreign-flag vessels are no longer eligible.

Senator INOUYE. I was intrigued by the statement that you were strongly in support of the Jones Act, but not quite certain as it applies to the *Cunard Princess* and the *Cunard Countess.* Why so?

Admiral SHEAR. The administration has consistently not taken a position on that extremely controversial piece of legislation.

Senator INOUYE. But yet you are strongly in support of the Jones Act?

Admiral SHEAR. We strongly support the Jones Act, that is correct, sir.

Senator INOUYE. I will try to figure that one out, sir.

The question I am about to ask may not go directly to the merits of the proposal before us, but we do not have this opportunity too often. I am going to ask a question on our open and fair competition policy. It relates to Cast.

Suppose Cast, which is a foreign flag operating out of Canada, decides that it wants to compete with U.S. Lines to carry screwdrivers from Chicago to Rotterdam. Cast simply goes to the FMC, looks at U.S. Lines' tariff for that item, and it knows what rate it will have to quote to compete. That is the case today.

Suppose, however, that the shoe is on the other foot, and Cast is carrying screwdrivers from Chicago to Rotterdam via Montreal, and U.S. Lines wants to compete for that cargo. Now, there is no place U.S. Lines can go to find out what rate Cast is charging shippers. Because of a loophole in the Shipping Act, Cast does not have to file a tariff with the FMC, even though the cargo moves in our foreign commerce.

Do you think that this result is consistent with our policy of fair competition?

Admiral SHEAR. The situation in the lakes at present, Senator Inouye—and I am not trying to dodge your question—is such that there are a large number of foreign flag-vessels operating in and out of the lakes in foreign trade from various U.S. ports, all the way from Duluth to Toledo, and there is only one U.S. operator operating out of this same area.

The foreign operators today are carrying all sorts of cargo—bulk cargoes, machinery cargoes, a complete cross-section. The question you pose about the fairness of operating through Canada is a difficult one. Certainly we want to have a fair situation for any U.S.-flag operators operating out of the lakes. I think we have that situation at the present time.

Senator INOUYE. Is not the least we can do to provide our operators with the same breaks that the foreign operators get?

Admiral SHEAR. I would agree with that.

Senator INOUYE. Then why do we not close this loophole and require Cast to file tariffs?

Admiral SHEAR. I will have to look into that further and give you an answer.

[The following information was subsequently received for the record:]

The situation is correctly described. It is possible for a carrier to move cargoes to or from a point in the United States to foreign ports via Canada and not file the rates with the Federal Maritime Commission. If the cargo were to move via a U.S. port, the appropriate tariff would clearly have to be filed with the Maritime Commission.

This situation arises because the U.S.-Canadian leg of the U.S.-Canadian-ultimate foreign destination movement takes place by truck or rail from the U.S. point to the Canadian port. Because this international shipment is not an oceanborne movement, it is not subject to the tariff filing requirements. Further, because the oceanborne movement takes place between the Canadian port and the ultimate foreign destination, it is not subject to tariff filing with the FMC.

The result is that there are, in effect, two classes of through rates for U.S.-foreign cargo shipments: those rates for cargoes moving through U.S. ports which by U.S. law are a matter of public record, and the through rates offered via Canadian ports for which no publicly stated rate exists. Given this apparent disparity of information as to rate levels, some maritime industry interests believe it would appear that a competitive advantage would lie with the carrier who can maintain unpublished rates while being able to observe the public filings of its competition.

The Administration has testified in opposition to the so-called Canadian Diversion bill that would generally require the filing of tariffs with the Federal Maritime Commission of ocean common carriers that transport cargo to or from the United States by way of a port in a contiguous country. The State Department has testified that this proposed legislation would amount to an assertion that the United States has jurisdiction over the carriage of certain goods between Canadian ports and third countries. Additionally, the Administration supports a free and competitive regime for international trade in both goods and services.

The Shipping Act of 1984 gives U.S. carriers new competitive flexibility to compete with foreign carriers. After we have had a year or so of experience with this new Shipping Act, the Administration will be prepared to discuss methods of further reducing tariff filing requirements on domestic intermodal movements if there appears to be significant inequity as regards tariff filing in the trades over contiguous country ports compared to domestic ports.

Senator INOUYE. Do you not think it is about time we got a little nationalistic and started vigorously supporting our side, as all other countries do?

Admiral SHEAR. I am wholeheartedly in favor of supporting our own merchant marine in every possible way, Senator Inouye.

Senator INOUYE. I believe your statement suggests that slow-speed diesel engines cannot be manufactured in the United States at the present time on a cost-effective basis, but evidence suggests that we can build medium-speed vessels.

In the international liner shipping, for example, could U.S.-flag medium-speed diesels be competitive with slow-speed diesels?

Admiral SHEAR. By and large, medium-speed diesels are not competitive with, heavy-duty, low-speed diesels. We are manufacturing several types of medium-speed diesels in the United States today. We are not manufacturing any of the international, heavy-duty, low-speed diesels, although we could assemble them here from foreign components.

With regard to efficiencies, if you really want to achieve the efficiencies necessary today, you must go to the heavy-duty, low-speed diesels, burning the heaviest grades of oil, which can be operated with minimal crews and certain periods of unmanned engineering spaces. On a fuel consumption basis, you do not get that kind of efficiency from a medium-speed diesel.

Senator INOUYE. What do you suggest we do?

Admiral SHEAR. I suggest that we utilize the most efficient type of diesel in any ship that we build.

Senator INOUYE. Mr. Chairman, I have many other questions I would like to ask. May I be permitted on this round to submit these questions? I know time is of the essence here.

Senator STEVENS. Yes.

Senator INOUYE. Thank you very much.

Senator STEVENS. Very well. Thank you, Senator Inouye.

Senator Gorton.

Senator GORTON. Admiral, with respect to this foreign-built authority, at the present time a line can build foreign and serve here in the United States, but it just simply cannot entitle itself to ODS, can it?

Admiral SHEAR. That is correct, sir.

Senator GORTON. Why is that not good enough? Do we not have lines which are able to operate in that fashion?

Admiral SHEAR. We have one line which is operating in that fashion today, and we have certain ships of other lines which are operating in that fashion.

Senator GORTON. Why do we have to go beyond that and offer a subsidy to lines which wish to build foreign, since it is evident that lines can operate efficiently under the present system?

Admiral SHEAR. I would like to point out that last year not a single subsidized operator, not a single subsidized line, was in the black prior to subsidy. Not a single one was operating in the black.

The act of 1936 provides for ODS. It provides for parity between foreign operations and U.S. operations as far as operating costs and true costs are concerned. That is in the law at present. We have long-term contracts which we are honoring and will continue to honor. We are not expanding those contracts, however. In other words, we are not taking on new operators.

Senator GORTON. Well, you leave me more puzzled now than I was when I asked the question. You are not adding to those contracts. Then why would you want to authorize ODS for vessels which are not now eligible for it?

Admiral SHEAR. The vessels to be built under the proposed amendment here would be eligible for ODS.

Senator GORTON. I understand that. But is that not inconsistent with your statement that you are not adding to ODS contracts at the present time, and want to?

Admiral SHEAR. On a ship-year basis we are not adding to the contracts and we do not propose to so add. The current contracts which we must honor are in effect to the 1990's, but we are not proposing to expand those contracts with additional operators.

Senator GORTON. But you might expand them with existing operators to additional ships?

Admiral SHEAR. Not above currently approved ship-years, ships per ship line.

Senator GORTON. Thank you, Mr. Chairman.

Senator STEVENS. I notice your answers to my friend from Hawaii. We too are interested in the coastwide trade. I am trying to find some way to rekindle the domestic maritime industry, so that my State, which has 450,000 people, will not have to pay the price it pays for shipping.

Alaska supports 40 percent of the Jones Act fleet today. If we are unable to get back to the point where those vessels are competitive in terms of world price, we will be forced to launch an attack on the Jones Act. It will be a sad day, I think, if we have to come to that time.

We are in the position now that our resources are unable to come to the lower 48 States because of the cost of the Jones Act fleet. This problem will grow as Alaska's resources are further developed. The only way that the cost of the Jones Act fleet can come down is if there is a restored base for the merchant marine in this country. Shipyards must achieve efficiencies and economies of scale in production. Only then will our merchant marine to its full national and international potential.

I regret the administration is unable to support the concept of giving some stimulus to that process of restoring our shipbuilding capacity while at the same time insisting upon keeping the burdens of maintaining the domestic fleet primarily upon a very small segment of the economy, namely the Alaska resource base.

I think in time that has to change; the administration should expand the whole production effort of U.S. shipyards and the efforts of the maritime industry, both domestically and internationally.

Getting back to the measure before us, it is not much different, really, than the 1981 approach as far as build-foreign is concerned. But it is not limited to that proposal. I think there are other things that must be done.

Let me ask you this: If we had an emergency today, do we have a passenger ship under the U.S. flag that would be capable of being converted immediately to military troop-carrying service?

Admiral SHEAR. We have two ships that would fall under that category which are now operating in the Hawaiian trade, sir.

Senator STEVENS. What are they?

Admiral SHEAR. These are the *Constitution* and the *Independence,* which have been operating in that trade for some time. They are former American export ships from the international trade.

Senator STEVENS. Are they the size of the Cunard Lines?

Admiral SHEAR. They are larger.

Senator STEVENS. They are larger?

Admiral SHEAR. They are larger.

Senator STEVENS. Are they available to us in a emergency?

Admiral SHEAR. They could be commandeered, yes, sir.

Senator STEVENS. There are just two of them?

Admiral SHEAR. Just two.

Senator STEVENS. No other passenger liners that would be available to us for that purpose?

Admiral SHEAR. No other passenger liners presently under the U.S. flag of that size for international transportation.

Senator STEVENS. How many did we have at the time World War II was declared?

Admiral SHEAR. I would have to provide that for the record, sir.

Senator STEVENS. Well, would you do that. I would like to have that figure just for old time's sake.

[The following information was subsequently received for the record:]

It should be noted that Pentagon plans for most contingencies call for all troops to be airlifted, so there is not the same need for troopships as there was in World War II.

U.S.-FLAG PASSENGER AND COMBINATION VESSEL FLEETS—1941

[Vessels of 1,000 gross registered tons and over]

	Privately owned	Average [1]	Government owned	Average	Total	Average
Number of ships	88		5		93	
Total GRT	581,000	6,603	81,000	16,200	663,000	7,129
Total DWT	460,000	5,227	67,000	13,400	528,000	5,677

[1] The America, the largest U.S. passenger ship built to date when it was delivered in 1940, was 26,454 GRT and 14,331 DWT. Typical of deliveries in 1941 was the President Hayes at 9,255 GRT and 9,947.

Senator STEVENS. I appreciate your appearance here today very much, Admiral. Thank you for your courtesy.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question 1. Since MARAD's budget request for ODS funds is based on a projection of how much money will be needed to liquidate obligations incurred in the next fiscal year, wouldn't Senator Stevens' proposal create a real risk that the annual ODS budget request will be unnecessarily high to ensure an "unobligated balance" which would be transferred to the "re-engining fund"; or, if the ODS budget request were "bare boned", that there will be little or no "unobligated balance" to transfer to the "re-engining" fund?

Answer. Regardless of whether or not the Stevens Bill were enacted, the Administration would not condone ODS budget requests that exceeded the anticipated requirements of the ODS program.

Question 2. In addition to being eligible for ODS, a liner vessel built in a foreign yard or acquired foreign under Senator Stevens' proposal would not have to operate under the U.S.-flag for 3 years before it would be eligible to carry government preference cargoes. It would be eligible immediately.

However, any other U.S.-flag vessel which is built or acquired foreign, would still have to wait 3 years before it becomes eligible to carry government preference cargoes.

For example, vessels that Sealand builds foreign as well as the ones Lykes has contracted to build foreign will have to wait 3 years before being eligible to carry government preference cargoes.

Would Senator Stevens' proposal therefore give vessels built under it an unfair competitive advantage?

Answer. The basic advantage afforded to U.S. operators is the provision for ODS eligibility in the case of ships built abroad. A secondary advantage afforded is that for the purposes of Section 901(b) (PL 83-664, the 50 percent cargo preference law), the vessels acquired under its authority are to be treated as if they were U.S. built. This means that they are immediately eligible to carry preference cargo instead of waiting through the three year delay period that is prescribed by Section 901(b) for foreign built ships in general.

However, in spite of the 901(b) restriction, the Lykes and SeaLand vessels in question, as well as any other foreign-built U.S.-flag ships, will have immediate access to a significant amount of preference cargo, representing up to 50 percent of all Department of Defense (DOD) cargo. All DOD cargo is subject to preference under the Military Transportation Act of 1904, but only the 50 percent that is also affected by Section 901(b) is subject to the three-year waiting period for foreign-built ships. SeaLand has availed itself of this immediate access for foreign-built ships in the past. In this light, it is not clear that companies electing to acquire foreign-built liner vessels subject to the three-year waiting period for PL-664 cargo have been unduly disadvantaged.

However, there would be an advantage to foreign-built liner operators in immediate access to a greater amount of DOD cargo, and to all foreign-built ship operators in immediate access to government-impelled cargo in general. For this reason the Administration's promotional bill proposed immediate eligibility for all foreign-built vessels.

Question 3. This morning the Committee will hear testimony to the effect that the Title XI Ship Financing Guarantee Program will be bankrupt in the first quarter of 1985.

Would you please comment?

Answer. As with all Federal credit guarantee programs, there is always a possibility of defaults large enough to temporarily deplete the Federal Ship Financing Fund and thus to necessitate interim borrowing from the Treasury under procedures set forth in Title XI of the Merchant Marine Act, 1936 (as amended). One or more major defaults could occur in 1985, but all possible steps are being taken to avoid them or to realize a return from collateral asset disposal sufficient to obviate any need for borrowing from the Treasury.

Question 4. Generally, could you describe the amount of work involved in re-engining a container vessel with a slow speed diesel? A medium speed diesel? What is the approximate cost per vessel?

Answer. The conversion essentially involves removal of all components associated with steam propulsion (turbines, gears, boilers, shafting, propeller, and other related equipment) and replacement with suitable diesel components. A substantial quantity of steel, pipe and electrical work must also be removed and replaced to suit diesel propulsion.

Due to engine room size constraints, not all steam powered vessels can be re-engined with slow speed diesel engine. Where a ship cannot be converted to slow speed diesel, the vessel could be re-engined with a geared medium speed diesel engine which is less fuel efficient.

MARAD has estimated the cost of replacing the steam turbine power plants for four different merchant marine ship classifications. In each case reductions in the maximum ABS horsepower were considered. The cost matrix follows, showing U.S. costs with a U.S. supplied engine and with a foreign engine in addition to an estimated foreign shipyard cost.

[Dollars in millions]

HP range		U.S. cost w/domestic engine	U.S. cost w/foreign engine	Foreign shipyard cost
Original	Repowered			
17,500	13,000	$13.7	$11.3	$7.9
28,000	16,600	15.1	11.5	8.6
32,000	18,400	15.7	11.8	8.9
36,500	20,700	17.1	12.6	9.3

Question 5. I believe Maersk Lines (Danish Flag) has done some re-engining of its fleet. Do you know whether re-engining is a very widely used technique for expanding and modernizing fleets?

Answer. A total of 40 foreign-flag steam ships either have been or are being re-engined with diesels. A total of eight ships are currently in the process: four Maersk in Japan and four others elsewhere in the Orient.

The program is slowing down. There are no orders beyond the eight ships now in process of conversion.

Question 6. Some CASO members have applications before you for ODS "Buy-Outs."

Today, however, CASO is supporting a provision which would continue ODS.

Is there an inconsistency in its position?

Answer. We do not find the position inconsistent. The various operators' management decisions to seek the termination of Operating Differential Subsidy (ODS) contracts reflect differing corporate conditions and management strategies. Other operators have different intentions and desire continuation of ODS.

Question 7. It has been estimated that continuation of the ODS program, with build foreign authority, will cost the Government from $4.2 to $5.4 billion between 1985 and 2000.

Do you agree with these figures?

Answer. The estimated Government cost of $4.2 to $5.4 billion between 1985 and 2000 would be reasonable if it were assumed that ODS operators would replace their existing vessels on a one-to-one basis. However, since prospective replacement vessels are generally larger and more efficient than the vessels being replaced, the actual number of replacement vessels will be appreciably smaller than the numbers replaced.

Furthermore, since the replacement vessels will have smaller crews, ODS payments per ship will be lower (in constant dollars) than for the replaced vessels. In this light, the estimate of $4.2 to $5.4 billion appears to be much too high.

Question 8. Senator Stevens' proposal only permits liner operators to build foreign and receive ODS. In your view, should drybulkers and tankers be included?

Answer. Yes.

Question 9. Recently, Lykes Bros. contracted for four 2,500 TEU containerships to be built in Japan. According to the President of Lykes, the cost of building those ships in Japan will be approximately $150 million whereas they would have cost $480 million in U.S. yards.

Do you feel that this is an accurate assessment of the cost differential for this type of ship?

Answer. MARAD has not developed formal estimates of the foreign or domestic costs for the Lykes ships. In the recent past, the cost of shipbuilding in the U.S. in comparison to foreign building indicated that the differential would have been over 60 percent. However, U.S. shipbuilders have made gains with improvements in technology and production procedures and in a competitive market we have seen U.S. price proposals decrease significantly. Although precision is imposssible at this time, the actual differential could now be somewhat lower than that quoted in the questions.

Question 10. In 1976 MARAD waived its "Buy American" provisions so that Sulzer Brothers, Ltd., of Switzerland could manufacture three slow-speed diesel engines for Avondale Shipyards.

If MARAD granted those waivers on a much broader scale, would ships be built in U.S. yards, even it there were no CDS?

Answer. The three engines for the APL ships built at Avondale were constructed in the U.S. and were considered to be U.S.-built engines under a MARAD-approved manufacturing plan allowing diesel engine construction in the United States with a certain portion of foreign content. With regard to the impact of granting waivers of the "Buy American" provisions on a broader scale, it is estimated that an average 10 percent reduction in shipbuilding cost would be achieved, varying according to the type of ship built. This saving would not be sufficient in itself to stimulate U.S. shipbuilding projects for the foreign trade.

Question 11. Under Senator Stevens' proposal, operators could, of course, build foreign and still receive ODS.

How do you reconcile the need for ODS for these foreign built vessels, with the fact that a U.S. operator (Sea Land) which operates foreign built vessels does not need ODS; and one of your own members (Lykes) just contracted to build four ships in foreign yards, and they will be operated without ODS. In fact, the president of Lykes is reported to have said that ODS is unnecessary for the vessels because of

competitive manning levels. Also, the new U.S. Lines vessels being built in Korea will not receive ODS.

As I understand it, the slow speed diesels that are built in foreign yards are automated, and the manning levels on them are much lower.

It seems to me there is a two-fold concern here.

First, of course, in the interest of budgetary restraint Uncle Sam should not be spending money needlessly. So if some companies can operate foreign built vessels without ODS, why can't others?

And second, as a matter of policy and equity, a federal law should not unnecessarily be the means for giving one commercial entity an advantage over another (i.e., a subsidized operator competing against an unsubsidized operator).

How do you answer these concerns?

Answer. The Merchant Marine Act, 1936, as amended, provides for subsidy on a cost parity basis and all the U.S.-flag operators have cost disadvantages. Sea-Land itself has publicly stated that it suffers some of the same operational cost disadvantages as the subsidized operators, but prefers the operational flexibility of not being bound by a contract. Although the new construction that Lykes has contracted for in foreign yards would not qualify for subsidy, Lykes had a compelling need to modernize its fleet of older breakbulk vessels and get into the rapidly growing intermodal transportation markets quickly. Therefore, Lykes believes that it is more economically advantageous to absorb the cost disadvantage of not receiving subsidy on its four foreign-built vessels than to operate uncompetitive ships. The U.S. Lines' vessels built in Korea have a productivity advantage over existing foreign-flag vessels as the vessels are state of the art and are manned with a crew of only 21 persons versus an average manning level of 39 billets for the subsidized liner fleet. It should be noted, however, that the 21-man crew is still substantially more costly in terms of wages than a 21-man crew on a foreign-flag ship.

Subsidy is only available where there is clearly a need for additional U.S.-flag service. Prior to approving ODS on any vessel, the Maritime Administration would have to ascertain that there was a need for the service.

Question 12. It has been said that since there are no ODS vessel replacement obligations in 1984 and those arising in 1985 and 1986 have already been provided for by section 615, there is no need for enacting a build-foreign provision this year.

Would you please comment?

Answer. The information referred to regarding the ODS vessel replacement obligations is incorrect in that it does not take into account vessel acquisition lead time. Taking this into account, four liner companies must enter into contracts in 1984 for the replacement of a total of seven vessels, and three liner companies must contract in 1985 and 1986 for the replacement of a total of six vessels. None of these companies requested or received permission to construct their replacement vessels pursuant to the temporary authority of section 615, which expired for practical purposes in September 1982.

Question 13. In their testimony, the shipbuilders urge a "build and charter" program. Do you support this proposal?

Answer. The Administration has not developed a position on this proposal.

Question 14. This morning SeaLand will suggest a program for early termination of ODS contracts with an orderly phase-out (as distinguished from buy-out) of ODS and, perhaps, incentives to become unsubsidized. What are your views?

Answer. The Administration recognizes that past subsidy programs have not worked efficiently to increase the competitiveness of the U.S.-flag merchant marine. With respect to Operating Differential Subsidy (ODS), we do not intend to expand this program and, in general, have been receptive to any reasonable offers to phase out ODS contracts in an orderly fashion. On the other hand, existing ODS contracts will continue to be honored if that is the operators' preference.

Question 15. Admiral, on several occasions you have remarked that the ODS program has failed to meet its objectives, and yet today you are urging what in effect is an extension of that program. Is there an inconsistency in your position?

Answer. The Administration has made very clear both its objective of a more competitive merchant marine and its view that the subsidy program has failed to achieve that objective. At the same time it has made clear its intention of honoring existing subsidy contracts. There is no inconsistency in this position.

Question 16. The shipbuilders' statement urges "a short-term initiative to build commercial ships in America of immediate usefulness for military sealift." In other words a "build and charter" program.

(a) What specific type of commercial ship would be "militarily useful?"

(b) Would they be fast and therefore propelled by steam turbine engines, or slow speed diesels?

Answer. (a) All ship types have potential military utility. However, the highest priority is accorded to those which can contribute without modification to the initial "surge" phase of military deployment, which involves the movement of military unit equipment (wheeled and tracked vehicles, helicopters, etc.). Ships in this category include, in order of preference: (1) Roll-on/Roll-off ships including car carriers with suitably strengthened decks; (2) barge carriers, and (3) breakbulkers. Containerships can also be used efficiently in surge operations if equipped with adaptation devices (Sea Sheds, flatracks) to permit vehicle stowage, but this entails additional cost. Containerships are particularly useful, without modification, in the resupply operations that follow the initial surge. High priority is also placed on coated product tankers up to about 90,000 dwt needed for the movement of fuel.

Dry bulkers can also be used effectively for military support if adapted for Sea Sheds or equipped with 'tween decks and, preferably, with cargo gear. In addition, liquified natural gas carriers can be used for fuel delivery. Very large crude tankers are generally not considered militarily useful except in highly specialized roles (e.g. forward fuel storage) but, like all of the above types, they are needed in the interst of national security for support of the economy. Tank barges may also be used in military support roles, as may passenger ships.

(b) While speed is desirable, especially for surge operations over long distances, commercial viability is also critical if the merchant fleet is to continue to operate and thus be available for military support. In this light, the Navy has consistently accepted the ship speeds dictated by considerations of commercial competitiveness in its review of commercial ship specifications for military utility. No change in this policy is anticipated, and, therefore economical slow-speed diesel propulsion is considered appropriate in spite of the associated slower ship speeds.

Question 17. Under the "build and charter" program would it also be necessary to enact additional cargo preference laws to ensure that those vessels are used?

Answer. The Administration is opposed to additional cargo preference laws because they would entail higher costs for consumers or for importers and exporters and would be inconsistent with the principles of free enterprise. It has not taken a position on the "build and charter" program. It does not, however, perceive a necessary connection between build and charter and additional cargo preference.

Question 18. Both the shipbuilders and the SIU recommend a "build and charter" program. If the Government were to build these vessels, and then charter them at low rates, should the vessels be allowed to operate in the Jones Act trades?

Answer. As the question is stated, it is assumed that "low rates" imply rates that are below competitive levels for other Jones Act operators. It would be unfair for the Government to interfere with the Jones Act market by making vessels available at below-market rates. Industry has always managed to supply sufficient vessels for the Jones Act trade without Government assistance.

Question 19. The "build and charter" program recommended by the shipbuilders and the SIU, envisions charter rates that would "allow U.S.-flag operators to compete with foreign operators."

In the international dry-bulker trades, for example, I believe operators are quoting "depressed rates" because the market is overtonnaged.

(a) The charter rates which the government would charge in that case would therefore have to be quite low wouldn't they? And, in any event, would not be high enough for the government to recapture the cost of building the vessels?

(b) Initially, would such a "build and charter" program be more expensive than the CDS program? I realize that in the long run it would not be because the only funding for the program would come from the paid into fund from charters or sales.

Answer. (a) If the ships constructed under the program were to be able to operate at competitive rates in the foreign trade, the charter rates would necessarily have to be held so low that the government would be unable to recapture that portion of the ship construction cost represented by the difference between U.S. and foreign shipbuilding costs (currently estimated at about 60 percent of the U.S. cost). Recapture of the remaining fraction of the cost would depend on the type of vessel involved (liner, bulker, tanker), the applicable U.S./foreign operating cost or rate differential, and whether or not the operator was receiving an operating differential subsidy or operating in a preference trade.

(b) Initially, on a ship-by-ship basis the "build and charter" program would be, at minimum, more expensive than CDS because CDS rates cannot exceed 50 percent while "build and charter" rates under the proposed concept would have to cover the actual current U.S./foreign construction cost differential of about 60 percent. To the extent that government charter rates for the ships were further reduced to cover operating cost differentials the excess of "build and charter" costs over CDS costs would increase.

Question 20. Under the "build and charter" program recommended by the shipbuilders and the SIU this morning, initial funding would come from reprogramming funds previously appropriated to the Department of the Navy.

Subsequent funds for the program would come from the money the government receives from the charter or sale of the vessels. In other words, a revolving fund.

Inasmuch as the charter rates would not be high enough to recapture the cost of building the vessel, and, in the event of a sale, the selling price would have to be well below the cost of construction, is it realistic to expect that sufficient money will be paid into the revolving fund to allow for much ship construction after the initial funding has been exhausted?

Answer. No, for the reasons cited in the answer to Question 19.

Senator STEVENS. Our next witness is Admiral Holloway.

STATEMENT OF ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS; ACCOMPANIED BY ALBERT E. MAY, EXECUTIVE VICE PRESIDENT

Admiral HOLLOWAY. Thank you, Mr. Chairman. I have a prepared statement I would like to submit for the record and give a much more brief oral version of that if I may, Mr. Chairman.

Senator STEVENS. Yes, sir.

Admiral HOLLOWAY. Mr. Chairman, CASO is pleased to appear before this committee to present its views on S. 1234. The Council of American-Flag Ship Operators believes that elements of S. 1234, if passed, could have a significant and positive impact on the U.S. maritime and shipbuilding industries.

S. 1234 would permit vessel operators in the domestic trade, but not inland U.S. trade, to use moneys deposited in capital construction funds for the construction in U.S. shipyards of vessels for domestic trades. CASO supports this provision.

S. 1234 would provide temporary authority for subsidized U.S.-flag operators to construct or acquire vessels outside the United States and remain eligible to receive operating differential subsidies to cover the large difference in crew employment costs between American-flag vessels and their direct and substantial foreign-flag competitors.

While CASO is not unaware of the problems that confront our shipbuilding industry, it notes that without provision of full cost parity for construction in the United States, American vessel operators with primarily older fleets must have this authority to acquire vessels on the world market if they are to build replacement fleets that can operate competitively.

ODS contracts were entered into in reliance upon the continued availability of CDS, and the only equitable action that the Government can take when it denied CDS is to permit foreign construction, reconstruction and acquisition. The initiative proposed in section 3 of S. 1234 simply recognizes present realities and would place the ODS operator in the same position as when he entered into his original commitments.

CASO strongly supports this provision. In addition, CASO suggests that the capital construction fund provision of section 607 of the Merchant Marine Act of 1936 be made applicable. To deny the incentives provided by section 607 for the construction, reconstruction or acquisition of vessels on the world market which would be brought under the U.S. flag would certainly result in an unneces-

sary and nationally undesirable handicap for the U.S.-flag liner fleet and help no American interest.

S. 1234 would establish an energy conservation program to aid in the replacement or upgrading of the propulsion machinery of U.S.-documented vessels. In addition, it would provide that up to one-third of the energy conservation account may be used to purchase suitable vessels for the national defense reserve fleet and for an energy tax credit for replacing or upgrading propulsion machinery.

While CASO does not believe that in the current liner fleet there would be many candidates for re-engining, it does support this provision of S. 1234. In addition, CASO believes that the set-aside of funds for the purchase of suitable vessels for the national defense reserve fleet is an excellent provision, one that would assist in upgrading the Ready Reserve Force fleet.

CASO believes, however, that it may not be realistic to limit the use of proceeds from such sales to the purchase of new U.S. vessels in shipyards, and suggests that the provision be broadened so that those moneys may be used in U.S. shipyards for conversion, repair and other work.

CASO has no position with respect to the provisions of S. 1234 which would permit the documentation of two cruise vessels.

That completes my oral statement, Mr. Chairman.

Senator STEVENS. Thank you.

I think you are right about being expanded to cover foreign building. It is a good suggestion.

Senator Inouye.

Senator INOUYE. A liner vessel which is built in a foreign yard or acquired under the build-foreign proposal submitted by Chairman Stevens would not have to operate under the U.S. flag for 3 years before it would be eligible to carry Government preference cargoes. It would be eligible immediately.

However, any other U.S.-flag vessel which is built or acquired foreign would still have to wait 3 years before it becomes eligible to carry this preference cargo. For example, vessels that Sea-Land builds foreign or the ones that Lykes has contracted to build foreign will have to wait 3 years.

Do you have anything to say about that?

Admiral HOLLOWAY. Let me ask Mr. May to comment on that particular aspect of this legislation.

Mr. MAY. Thank you.

We would support the recommendation of Admiral Shear that the provision should be made available to all U.S.-flag operators. We do not seek any advantage over other operators. We feel everyone should be treated equally and we would support a change to that effect.

Senator INOUYE. In 1976 MarAd waived its buy-American provisions so that Sulzer Bros. could manufacture three slow-speed diesel engines for Avondale. Now, if MarAd granted these waivers on a much broader scale, would more ships be built in U.S. yards?

Admiral HOLLOWAY. Senator, I do not believe so, unless full parity were available to the U.S. operator. That is the key to this build-foreign issue.

Senator INOUYE. Under the proposal before us, operators could build foreign and receive ODS. How do you reconcile the need for

ODS for these foreign-built vessels with the fact that a U.S. operator, in this case Sea-Land, which operates foreign-built vessels, does not need ODS, and one of your members, Lykes, just contracted to build four ships in foreign yards and they will be operated without ODS? In fact, the president of Lykes is reported to have said that ODS is unnecessary for the vessels because of competitive manning levels.

Also, the new U.S. line vessels built in Korea will not receive ODS. As I understand it, the slow-speed diesels that are built in foreign yards are automated and the manning levels on them are much lower.

In the interest of budgetary restraint, we cannot be spending money needlessly. So if some companies can operate foreign-built vessels without ODS, my question is, Why cannot others?

Admiral HOLLOWAY. Senator, I think it is a question of the trades that these vessels are operating in. We must remember that subsidized lines not only receive subsidies, but have obligations to maintain service to specific areas of the world on fixed schedules. It is an obligation they have. In some trades, our liners are able to remain competitive in the absence of ODS.

As my statement indicated, the justification of ODS and CDS is to support a U.S.-flag merchant marine that would not only serve this country in an economic sense in all areas of the world providing regular service, but would also be strong enough to satisfy the military requirements imposed by the sealift needs of our defense plans.

When the construction differential subsidy was eliminated and our U.S. liner operators could not modernize their fleets to remain competitive, then we were faced with a situation where the operators must be able to acquire their ships overseas at the same cost as their competitors, or go out of business.

As I pointed out in my statement, the authority to build foreign is essentially a replacement for CDS, which was part of the original concept to maintain a U.S.-flag merchant marine that could serve the country both economically and in a military sense.

Senator INOUYE. But I am certain you are aware that we do have these subsidized ships serving in the same trades as unsubsidized ships. Would we be giving a competitive advantage to the subsidized ships?

Admiral HOLLOWAY. I think you have posed certainly a very basic question, and I think that what the answer would have to be is that in this specific case, the subsidized operators are simply going to have to be in a position to replace their fleets or not stay in business. It is a question of survival for them.

Maybe Mr. May would like to add to that.

Mr. MAY. Yes. There is one factor that the admiral touched upon previously. Contracts that are in place with subsidized lines require that they provide service, certain minimum sailings and certain maximum, sailings and there are a myriad of restrictions that are placed upon those lines that are not placed upon nonsubsidized lines such as Sea-Land.

There are restrictions on their operating routes and their patterns of service. You have to remember that many of the companies—and Lykes is an excellent example—have ships, as Mr.

Amoss has recently stated, which if replaced by modern low-cost ships can probably compete without subsidy in a high-volume trades, such as the west coast to the principal commercial centers in the Orient.

However, Lykes also operates to many other areas of the world, Africa, South America, the Middle East, the Mediterranean, which are relatively low-volume trades, where you cannot use the large, high productivity container systems such as are found in the trans-Atlantic and trans-Pacific trades where Sea-Land operates.

Lykes could not operate in these low-volume trades and meet all of their contractual obligations without ODS. It is a very complex situation.

Senator INOUYE. Do your member companies have any specific plans to take advantage of the 18-month, build-foreign provision in this bill?

Admiral HOLLOWAY. Senator Inouye, let me say that I am sure that they do. Generally speaking, these plans are business confidential. Therefore it is not possible for me to be specific.

But I think that the enthusiasm with which the CASO members support this build foreign provision is indicative of their great interest in their having this authority. And I think I could say without any fear of being wrong that it would be very heavily utilized by the CASO members.

Senator INOUYE. You are supporting a provision which would continue ODS. However, at the same time some of your members have submitted applications for ODS buyouts. Is this consistent or inconsistent?

Admiral HOLLOWAY. I think it is consistent, Senator. Actually, the proposals that are being made and are now under consideration are either modifications to their ODS contracts or, as you say, early termination of those contracts. These proposals recognize the fact that the Government and the operator have entered into long-term contracts which not only provide ODS to the operator but obligate the operator to carry out certain requirements in trade routes and in schedules.

Because the operator's fleets are predicated on a subsidized service, there needs to be an adjustment when shifting from a subsidized mode of operation to unsubsidized.

Senator INOUYE. Mr. Chairman, I have many other questions I would like to ask, but may I submit them for the record, sir?

Senator STEVENS. Yes; of course.

Thank you very much.

Senator Gorton.

Senator GORTON. I have no questions, Mr. Chairman.

Senator STEVENS. Thank you very much, Admiral and Mr. May. We appreciate your appearance here today.

[The statement follows:]

STATEMENT OF ADM. JAMES L. HOLLOWAY III, PRESIDENT, COUNCIL OF AMERICAN-FLAG SHIP OPERATORS

Mr. Chairman and members of the committee, I am Admiral James L. Holloway III, U.S. Navy (retired), President of the Council of American-Flag Ship Operators (CASO). Accompanying me today is Albert E. May, Esq., Executive Vice President and General Counsel of CASO. I am pleased to be here today to testify in behalf of S. 1234, the "Merchant Marine Promotion Act of 1984". As Senator Stevens said in

his introductory statement accompanying this legislation, the promotional initiatives contained in it are not a pancea for the long term. However, we believe elements of the bill, if passed, could have a significant positive impact on the U.S. maritime and shipbuilding industries.

The first of the four promotional initiatives in S. 1234 would permit vessel operators in the domestic (but not inland) U.S. trades to use funds deposited in Capital Construction Funds (CCF's) established pursuant to Section 607 of the Merchant Marine Act of 1936 for the construction in U.S. shipyards of vessels for the domestic trades. Currently, domestic operators may establish CCF's, but are permitted withdrawals only for the purpose of construction of vessels in U.S. shipyards for the foreign and non-contiguous trades. As I will explain in more detail later, CASO members believe that the availability of Capital Construction Funds is a powerful element fueling U.S. flag ship construction and we would support this provision.

The second initiative contained in S. 1234 would provide temporary authority for subsidized U.S. flag operators to construct or acquire vessels outside the United States and remain eligible to receive operating-differential subsidy to cover the large difference in crew employment costs between American flag vessels and their direct and substantial foreign flag competitors as measured on the specific trade route involved.

Most of the American flag liner vessels in our merchant fleet were built in the 1960's and early 70's. Their owners suffer the burden of operating these ships against competition that has moved to more fuel efficient vessels with large diesel engines that have reduced fuel costs by more than 30 percent—today fuel is our largest element of vessel operating cost. Automation advances permit our foreign competitors to man these ships with 18 to 20 man crews, just half the 38 to 40 man crews in our 1960's built vessels—crew costs are our second largest element of vessel operating cost. Finally, the development of high productivity container facilities world wide has allowed our competitors to combine fourfold increases in vessel capacity with the previously mentioned energy and crew cost advantages. American vessel operators with primarily older fleets must have a means now to build replacements vessels competitively.

We are not unaware of the problems that confront our shipbuilding industry. Many yards that have the capacity to build large merchant ships have at present the opportunity to work on our Navy's extensive ship construction program, but in the longer term a revived program for merchant ship construction by U.S. yards offering American purchasers price parity with world yards should be developed.

CASO members would prefer to build ships in the United States subject only to the requirement that when they do so, they must have full parity with their foreign competitors with regard to cost, technology and delivery time. Full parity with regard to these competitive factors is essential if the U.S. liners are to survive in the face of severe and continuous competition from foreign operators.

Whenever it is necessary to maintain the domestic shipbuilding base, the government should provide sufficient incentives to permit ODS contractors to build in the United States with full parity—and I must stress full parity because the American-flag ship operator can in no way subsidize domestic shipbuilders. It is not a question of willingness, but one of economic survivial in the international trades.

Whenever CDS funds are not available, or when cost parity cannot be achieved in the United States, ODS contractors should be authorized to acquire, construct or reconstruct vessels in the world market and such liner vessels must have identical rights, duties and restrictions under ODS contracts and the Merchant Marine Act of 1936 as liner vessels built in the United States.

Assurance of parity for U.S. liner operators in capital costs and the cost components is essential for the long-term planning of fleet replacement and expansion programs.

U.S. owners with ODS contracts are obligated under their ODS contracts to periodically replace vessels in their fleet. Liner type vessels currently cost approximately two to three times as much to build in the United States as they do on the world market and construction takes at least twice as long. It is, therefore, impossible for U.S. owners to build in the United States without parity and survive. CDS is not now available and will not be available, at least during the next several years. ODS contracts were entered into in reliance upon the continued availability of CDS, and the only equitable action that the government can take when it denies CDS is to permit foreign construction, reconstruction, and acquisition. The Reagan Administration recognized this and has supported the extension of authority for ODS operators to construct, reconstruct, or acquire vessels outside the United States (and remain within the ODS program) in order to meet their ship replacement obliga-

tions and maintain the size of the U.S. flag liner fleet which is vital for our national security.

Operators who chose to enter into contracts with the government and receive an operating differential subsidy gave many commitments in return. Among those commitments, the most significant are to provide regular and dependable service, and to replace vessels at specified intervals in American shipyards. When these commitments were made, the then-existing shipyard subsidy program provided the U.S. operator building in a U.S. yard capital cost parity with his foreign competition. The initiative proposed in Section 3 of S. 1234 simply recognizes present realities and would place the ODS operator in the same position as when he entered into his original commitments.

We note with regret that this section would not permit U.S. flag operators to use existing and newly deposited tax-deferred monies in Capital Construction Funds to construct or acquire foreign-built vessels.

The CCF program, created under Section 607 of the Merchant Marine Act of 1936, is an essential part of the upgrading and replacement program of U.S. flag liner operators. As stated earlier, CASO members believe that the availability of Capital Construction Funds is a powerful element fueling U.S. flag ship construction. The ability to deposit earnings into a CCF during periods of profitability for steamship operators for later investment in new construction has been invaluable. It has permitted the cyclical steamship industry to accumulate funds on a tax deferred basis for future investment in U.S. flag tonnage.

The current Capital Construction Fund program came into existence with the 1970 Merchant Marine Act. Prior to that time only the select group of a dozen subsidized operators had enjoyed any tax deferral for vessel construction. One of the convincing reasons for the extension of the Capital Construction Fund to all U.S. operators was the bias in the United States tax law which continues today toward foreign operation and construction of vessels. The provisions for taxing foreign shipping companies owned by U.S. citizens, often referred to a Subpart F of the Internal Revenue Code, provide that a long as a U.S. investor maintains his shipping interests outside the United States under foreign flag and reinvests the earnings in additional assets no taxation of the earnings generated by the foreign operations is imposed by U.S. law.

It must be remembered that the Capital Construction Fund program is designed to assist in the maintenance and upgrading of a U.S. flag merchant fleet. Under its provisions a deferral of taxes is achieved only if money is, in fact, deposited in a fund. In addition, when an "eligible vessel" is constructed using CCF monies, the basis of that vessel for depreciation purposes is reduced accordingly. This fund must be used for the acquisition of new vessels or reconstruction of existing vessels or the tax benefit will be lost.

To deny the incentives provided by Section 607 for the construction, reconstruction, or acquisition of vessels on the world market which would be brought under the U.S. flag will certainly result in an unnecessary and nationally undesirable handicap for the U.S. flag liner fleet and help no American interests. In connection with "build foreign" generally, the Administration has recognized the essential nature of the CCF program and has recommended that Section 607 be made applicable to vessels constructed, reconstructed or acquired on the world market.

We strongly urge that this Committee consider amending S. 1234 to delete the language in Section 3 denying the use of CCF funds for the purposes of that Section.

The third principal provision in S. 1234 would establish an energy conservation program to aid in the replacement or upgrading of the propulsion machinery of any vessel documented under the laws of the United States. The aid would be in form of grants funded from an "Energy Conservation Account" which would, in turn, be funded for three years by the amounts, including interest, of unobligated operating differential subsidy funds. The owner of each vessel for which such a grant was sought would have to show that making such grant would provide the maximum engine room automation realistically attainable and would result in a fuel savings of not less than 25 percent. The grants are designed to make up the difference between doing the work in a U.S. or foreign shipyard and would have a ceiling of 50 percent of the total cost.

In addition, Sections 4 and 5 of S. 1234 provide that up to one-third of the "Energy Conservation Account" may be used to purchase suitable vessels for the National Defense Reserve Fleet with the condition that "reasonable assurances" be given by the shipowner that the proceeds will be used to purchase new, fuel efficient vessels in domestic shipyards. Provision is also made for an "energy tax credit" in the amount of 15 percent of the cost of replacing or upgrading propulsion machinery.

With regard to the replacement or upgrading of the propulsion machinery of vessels owned by CASO members, while we cannot provide specific numbers for you at this time, there do not appear to be many likely candidates. The decision to repower must be an economic one, based essentially on the remaining useful life of a vessel and its size. It would not be economical to repower the older vessels in the fleet and the most recent additions already have fuel efficient diesel population units.

With regard to the set aside of funds for the purchase of suitable vessels for the National Defense Reserve Fleet, we believe that this is an excellent provision, one that would assist in upgrading the Ready Reserve Force Fleet. It may not, however, be realistic to limit the use of proceeds from sales to the purchase of new vessels in U.S. shipyards. Few U.S. liner operators currently have enough economically obsolete vessels which could be sold to help finance construction of ships in a U.S. yard. We also note that there is no provision for construction assistance—thus any ships built under this provision, if they were to be economically competitive, would have to be for the domestic trades. Without full parity, it clearly would not be possible to build for the foreign trades. Perhaps the provision could be broadened so that such monies could be used in U.S. shipyards for conversion, repair or other work.

CASO has no position with respect to the provisions of S. 1234 which would permit the documentation of two foreign cruise vessels.

Mr. Chairman, this completes my prepared remarks and I would be happy at this time to try to answer any questions you or members of the Committee might have.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. What specific type of commercial ship would be "militarily useful"? Would they be fast and therefore propelled by steam turbine engines, or slow-speed diesels?

Answer. All kinds of cargo ships are useful for sealift purposes—breakbulkers, barge carriers, roll on-roll off, and container ships according to the Military Sealift Command. Breakbulk ships are useful in undeveloped areas where no cargo handling facilities are available, but the disadvantage of breakbulk ships is their very slow rate of cargo loading and discharge. With the volume of material that must be moved to support modern ground forces this deficiency could cause paralyzing jams in the logistic pipeline. The more modern types of cargo ships—Ro/Ro, barge, and container vessels—enormously speed up the loading and discharge, and deliver the military support in a form that enables cargo to be rapidly distributed to inland depots avoiding the dangerous concentration of material at the port areas.

Our experience during the Vietnam War is a good example of the effective employment of a commercial sealift fleet of varied composition. Breakbulk ships were used during the early part of the conflict until a modern container port could be constructed at Cam-Ranh Bay. From then on the most efficient movement of military supplies was through containers.

Containerization has revolutionized the liner industry. The efficiency of modern freighters with mechanized cargo handling equipment has so increased liner productivity that breakbulk vessels, with their slow turn-around times and the large crews are no longer economically competitive in most commercial trades. The same technological revolution applies to military sealift. The older breakbulk freighters, with their slow loading and discharge are no longer suitable for the enormous flow of logistic support demanded by our modern ground and air forces.

The U.S. Navy is adapting its military logistics concepts to take advantage of the advanced commercial technology in cargo handling and generating a revolution in military sealift techniques that will vastly increase the productivity of the whole sealift fleet. The Department of Defense is making a heavy investment in programs to develop and employ new equipment such as flat racks and sea sheds which will enormously expand the movement of military cargo.

For any build and charter commercial program to be successful, these vessels must be able to compete with the other ships in their trade. It is readily apparent that a realistic build and charter program must invest in ships that are highly automated for small crews, equipped with advanced cargo handling equipment to reduce turnaround times, and have installed slow-speed diesel engines for fuel economy.

The fact that the vessel may be powered by slow-speed diesel engines should not be confused with the service speed of the vessel itself. Depending on the number of propellers, gearing, et such vessels might be quite fast indeed. American President Lines recently constructed three vessels in a United States yard using slow-speed

diesel propulsion and a single propeller. The service speed of these vessels is 24 knots. Much higher service speeds can be obtained using slow-speed diesel propulsion.

Question. This morning Sea Land will suggest a program for early termination of ODS contracts with an orderly phase-out (as distinguished from buy-out) of ODS and, perhaps, incentives to become unsubsidized. What are your views?

Answer. We do not agree with the suggestions contained in the testimony of Sea Land for ". . . an orderly phase-out . . . of ODS." The views of CASO on ODS contract amendments and terminations are fully set forth in comments submitted to the Maritime Subsidy Board late last year a copy of which is attached for your record.[1]

Question. Under the "build and charter" program would it also be necessary to enact additional cargo preference laws to ensure that those vessels are used?

Answer. Until the specifics of such a program are more fully outlined it is not possible for us to answer this question.

Question. Both the shipbuilders and the SIU recommend a "build and charter" program. If the government were to build these vessels, and then charter them at low rates, should the vessels be allowed to operate in the Jones Act Trades?

Answer. No.

Question. Would vessels built under a "build and charter" program have a competitive advantage over other U.S. flag vessels not built under such a program?

Answer. As with an earlier question, until the specifics of such a program are more fully known, the question cannot be answered definitely. It is likely, however, that depending upon the type of service they were built for, such vessels might well have a competitive advantage over other U.S. flag vessels.

Question. Under the "build and charter" program recommended by the shipbuilders and the SIU this morning initial funding would come from reprogramming funds previously appropriated to the Department of the Navy.

Subsequent funds for the program would come from the money the government receives from the charter or sale of the vessels. In other words, a revolving fund.

Inasmuch as the charter rates would not be high enough to recapture the cost of building the vessel, and, in the event of a sale, the selling price would have to be well enough below the cost of the construction, is it realistic to expect that sufficient money will be paid into the revolving fund to allow for much ship construction after the initial funding has been exhausted?

Answer. No.

Senator STEVENS. Our next witness is Mr. Lee Rice, president of the Shipbuilders Council of America.

STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. RICE. Thank you, Mr. Chairman.

As the other witnesses, I have a prepared statement that I would like to submit for the record and will present a shorter version with your permission.

The need for a short-term plan which will preserve vital national assets, seagoing manpower, shipping, shipbuilding and ship repair capability and capacity, is becoming increasingly evident as the availability of these assets continues to decline.

We cannot endorse the Merchant Marine Act of 1984 in all of its elements, because we remain convinced that the compelling need to sustain the shipyard mobilization base is made more difficult by certain of its provisions. The build foreign, immediate access to preference cargo, and Cunard reflagging provisions each in our view act to exacerbate the shipbuilding problem.

Further, we find no compelling need by the liner industry for the proposed provisions under current circumstances, nor do we believe that the capital structure of the industry or its debt capacity will

[1] The attachments are in the Committee files.

allow the addition of substantial numbers of new vessels, no matter how desirable. This conclusion is discussed in our full testimony, as is the pervasive misconception held by some in the administration that current and projected naval new building and repair programs provides adequate support for the industry.

Those who hold this view are guilty of self-deception. The Navy program is highly concentrated and the type and mix of planned new work, assuming the unlikely event of full outyear funding, simply cannot sustain the required base. To argue that our industry is more fully supported than that of other nations of the world is simply not germane to the argument of sufficiency.

The Shipbuilders Council supports the proposed reengining program, but urges that it be broadened and that a secure source of funding be provided if it is to proceed. The proposed cost equalization grant and tax credit are concluded as minimums required to induce owner participation.

Unexpended ODS funds are, in our view, not a reliable source of future funds for either the re-engining program or for purchase of reserve fleet vessels. Further, CCF-qualified investment should in our view be broadened to the full offshore Jones Act fleet as proposed. We urge that the Jones Act be extended to encompass the entire 200-mile economic zone. This proposal, which you have heard from us before, is opposed by some. Yet we know of no full debate or analysis of its impact.

We are convinced it is imperative that the subcommittee initiate under title VII of the Merchant Marine Act of 1936 a program to build ships in America while at the same time creating vessels of immediate usefulness for military sealift. These vessels, purchased by the Government, would be offered for charter to U.S. operators under terms which allow effective competition in international markets and thus provide vessels and seamen in the highest state of military readiness, that of operating vessels.

The program would be based on a revolving fund with substantial initial capitalization to be provided by appropriated funds and the reprogramming of funds previously appropriated to the DOD and the DOT, thus providing ongoing support for the shipyard base.

At a minimum, the program will provide vessels to upgrade the reserve fleets. The program alone, however, is not a solution, but can provide work to sustain some shipbuilding capability during the critical period ahead.

The major T-ship program, which has been a major source of support in recent years and goes on for the short term, is near the end, as is the commercial new building order book. Given the substantial delay to implement the title VII program, major gaps in yard continuity are very likely, nor can all shipyards be supported unless the program is quite large in scope.

We encourage this subcommittee to continue to seek a short-term solution not only directed at sealift assets, but designed to preserve the shipyard mobilization base. This base has become extremely fragile. Shipyards are failing and closing at an alarming rate.

Action is required in the very short-term or the Nation will be faced with the loss of a substantial portion of the Nation's private ship construction and ship repair capacity, together with the indus-

trial base essential to the efficient functioning of these segments of the maritime industry.

We hope that this hearing will provide guidance which will allow the creation of an acceptable short-term program. Each segment of the industry has significant needs, the solutions of which can enhance the national welfare. In principle, we do not believe that any sector must be sacrificed for either short-term gain or political expediency.

The overall issues and arguments are well known. A workable short-term solution must address all the major issues and recognize the legitimacy of needs. If compromise is required, we are convinced that fairness and the national need based on defense requirements should be its foundation. Theory and ideology cannot be allowed to dominate the process that is before us.

Once again, the Nation's defense requirements must be granted, in our view, the highest priority in the decision chain.

Thank you.

Senator STEVENS. Well, I thank you very much.

I do not have any questions. I am wearying of the task of trying to find a middle road that all elements of the industry can at least reluctantly support. If we move in one area, the shipbuilders object. If we move in another area, the ship operators object. And if we move in another area, the maritime unions object. I think that we are watching an industry slowly strangle itself.

Senator Inouye.

Senator INOUYE. Thank you very much.

Lykes Bros. has just contracted to build four container ships in Japan, and the president of Lykes Bros. has indicated that the cost of building these ships would be approximately $150 million, whereas he has maintained that if he were to build these four ships in U.S. shipyards it would have cost $480 million.

Is that a correct assessment of the cost differential of this type of ships?

Mr. RICE. Well, since Mr. Amoss has never asked an American shipbuilder for a price, it is very hard to understand where he gets $480 million. We do not think that is the correct number. We think that if you look at the bidding pricing on the U.S. Lines' ships, which are reasonably comparable for the Jones Act trade, you get quite a different answer.

So we would not agree with Mr. Amoss.

Senator INOUYE. Would vessels which the Government would build under the program which you support—build and charter—be allowed in the Jones Act trade, or should they be allowed in the Jones Act trade?

Mr. RICE. That is an interesting question. I have debated with myself several times that issue. The simplest thing to do is to attempt to build the vessels and then hopefully find foreign trade use for them. It complicates the problem of prior investment in Jones Act immensely if a capital asset is suddenly offered for charter in competition with an existing asset.

We would take the view that that is not a very short-term thing that can be accomplished. It is our view, however, that if you are going to support the shipyard base, with build and charter, and if you indeed make a second decision that you want to operate those

ships, one of the major trades that would have to be considered is the Jones Act.

Senator INOUYE. You do not think that would destroy the present operators?

Mr. RICE. Oh, yes, it would be a very difficult thing to phase in with fairness, I should say.

Senator INOUYE. In your statement you urge "a short-term initiative to build commercial ships in America of immediate usefulness for military sealift." Do you have any specific types of commercial ships in mind that would be immediately militarily useful?

Mr. RICE. Yes; we have a specific proposal in mind that these should be car-carrying type RORO's. We believe that there is a trade which these type ships, with the support of the Government, can enter, the movement of imported automobiles into the United States.

They also are the class of vessel that the Navy and the Military Sealift Command would find very useful. The Navy goes beyond that in citing the need for medium-sized tankers. We have a much more difficult time finding a charter situation where there is a likely utilization of that class.

Senator INOUYE. What you are describing here is a ship that would go to Yokohama, pick up Toyotas, and bring them to the United States?

Mr. RICE. That is correct.

Senator INOUYE. And what would that ship take back to Yokohama?

Mr. RICE. Just what the Japanese ships take back—nothing. The Japanese, in their utilization of that trade, have found that from a cost-effectiveness point of view, they sail back in ballast. They make no attempt to carry back return cargoes, and I would think that the trade would be the same for a U.S. ship.

Senator INOUYE. Would they be fast ships or slow-speed diesels?

Mr. RICE. Well, I am certain that they would be slow-speed diesel ships, because I think from an efficiency point of view, that is what you ought to build in this Nation. You face the then much more difficult problem of where those engines come from if the program is going to be substantial, and an ongoing program. I am convinced, that foreign manufacturers will ultimately establish manufacturing capability in this country, but only if we have a significant program that can be judged to be ongoing.

Senator INOUYE. What do you think the short-term initiative will cost?

Mr. RICE. Well, as to the short-term initiative, what we are urging is a program that builds seven or eight ships. You then have to decide what class of ship you are going to build and then I can tell you roughly the cost. It is hundreds of millions of dollars at a minimum.

Senator INOUYE. Your build and charter program envisions that the ships be built in private shipyards and would be financed by the U.S. Government.

Mr. RICE. Correct, sir.

Senator INOUYE. The Government would, in turn, charter them to U.S.-flag operators, at rates which allow competition with foreign operators.

In other words, the charter rate which the Government would receive would be less than would be necessary to recapture the capital costs of building the vessel. Isn't that a subsidy on a subsidy?

Mr. RICE. Oh, it is absolutely a subsidy. We make no bones about that. It is a subsidy.

Senator INOUYE. And you are in favor of that, sir?

Mr. RICE. Yes, indeed, because it is the only way we see to provide any shipbuilding in the near term. We think it is so critical that the Government has to pay that price.

Senator INOUYE. Under your build and charter program, would it also be necessary to enact additional cargo preference laws to ensure that those vessels are used, including commercial cargo preference?

Mr. RICE. There you have a second question, in our judgment. We support build and charter because it provides work for shipyards.

Second, after you have built the ship, you will need to make a second decision, whether or not it is in the national interest that those ships operate. If you make the decision that I think it is likely we would, than to preserve the ships in the highest class of readiness and to provide seamen ongoing jobs, that we should operate those vessels, then it well may be a requirement that we engage in bilateral agreements with our trading partners or some form of program that provides cargoes for those ships.

Otherwise, there would be few owners willing to charter the vessel, in our judgment.

Senator INOUYE. Under this proposal, would we sell these vessels eventually?

Mr. RICE. Sir, you could sell the vessels. It is our judgment, however, that it is a better strategy to put them in the reserve fleet rather than to sell them into competition with other ships.

Incidentally, if you were to sell them, the market for those ships would clearly be below their cost, no question about it.

Senator INOUYE. I thank you very much, Mr. Chairman. Here again, I have a few other questions that I would like to submit for the record.

Senator STEVENS. Certainly. Thank you very much, Senator Inouye.

Senator GORTON. Mr. Rice, is there any manufacturing industry in the United States of America which receives the subsidy of the relative or absolute size of the shipbuilding industry pursuant to CDS in the 1970's or the proposals you make now?

Mr. RICE. Let me try to repeat your question. Is there any industry——

Senator GORTON. Any manufacturing industry in the United States of America that receives a subsidy equivalent to the subsidy which was provided to your industry in the 1970's through CDS, or would be provided through the recommendations you are making to us today?

Mr. RICE. I presume you are focusing on the percentage of cost and not on the total dollars?

Senator GORTON. Yes; percentage of the cost.

Mr. RICE. The judgment there would be that it is likely the highest percentage. On the other hand, I have no absolute way of know-

ing that. We have very complicated ways of subsidizing many of our industries, but I think on its face you are likely correct.

Senator GORTON. You speak in your written testimony lovingly of the underlying tenets of the Merchant Marine Act of 1936. Is it your view, as it is expressed to us, that attitudes toward the national security of the United States in 1936 and 1984 are and should be identical? That is to say, that the United States in 1984 should be preparing to fight a long, extended World War II-type war over many theaters for many years, that this is an appropriate and wise way in which to spend hundreds of millions or billions of dollars?

Mr. RICE. Our answer to that question is really quite simple. We do not pretend to be experts in defining what war scenario this Nation should prepare for. What we are taking as a position, I think is quite sound. The Nation decides what its defense-guidance plans should be.

Having decided what the defense-guidance plan should be, it should then provide both sealift and shipyard assets able to support that defense-guidance plan. Once it has done that, it will have done the job.

It is our view that at the present time, neither sealift nor shipyard capacity is adequately supported and consistent with what we have defined in defense guidance.

Senator GORTON. Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much.

Thank you very much, Mr. Rice. We appreciate your courtesy in coming before us today.

[The statement follows:]

STATEMENT OF M. LEE RICE, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. Chairman and Members of the Subcommittee, I am Lee Rice, President of the Shipbuilders Council of America. The Council is a trade association representing principal shipbuilders and ship repairers and the suppliers of equipment, materials and services to these industries. A listing of the membership of the Council is attached. I request that our full testimony as well as my verbal summary be included in the record of this hearing.

THE NEED FOR SHORT-TERM ACTION

The objective of the legislation before the Subcommittee is the creation of a short-term plan toward meeting some of the perceived needs of the maritime industry. We have frequently stated that a short-term plan is a requirement to preserve the maritime assets vital to the national defense. These needs are:

(1) Provide sealift capability and capacity necessary to meet the defense requirements and sustain the nation's economy during periods of national emergency; and

(2) Sustain the shipyard mobilization base which is deemed to be an essential component of the nation's defense assets.

The Committee will recognize, of course, that these are the very issues which are intended to be addressed by the Bennett-Byrd-Warner Maritime Commission which, we trust, will be established as a part of the 1985 Defense Department Authorization legislation. That the Congress finds it necessary to create yet another Commission to address a problem of such great national importance, over the objection of the Administration, shows fully that the significance and meaning of the innate linkage between our maritime capability and their defense strategy is not understood within some circles of the Administration.

The need for prompt action is reaching the crisis state. Unfortunately, we cannot endorse the "Merchant Marine Promotion Act of 1984" as providing the required short-term solution because vital problems within the shipbuilding industry are not resolved in consistency with national need.

Early this week, the shipyard I used to oversee, Avondale Shipyards, Inc., of New Orleans, LA, delivered the tanker Exxon *Baytown*. The Exxon *Baytown* brings to an

end the construction of commerical ships in our domestic shipyards for the deep-water trades. Now, no U.S. shipyard has an order for a major commercial ship. This is true for the first time in at least fifty years and perhaps in the entire history of our nation. We are not naive enough to be fooled by the claims of the Maritime Administration that vessels under construction for the Military Sealift Command are commercial vessels.

Nor do the claims that foreign building is the proper answer to our problems prove to be persuasive. Two weeks ago, Lykes Bros. Steamship Company contracted for four new containerships to be built in Japan and announced the intent to purchase an additional two vessels. Added to the 49 new buildings or major conversions authorized for foreign shipyards under the 1981 Omnibus Reconciliation Act and the six existing foreign-built ships permitted to fly the U.S. flag and receive Operating Differential Subsidy (ODS) under last year's Joint Resolution for Continuing Appropriations, a total of 59 new or converted vessels are to be acquired abroad by U.S.-flag operators. Yet, with this activity we are barely able to say that our seagoing fleet has kept even with the accelerating rate of vessel scrappings that has occurred or that the required additions by the government to the reserve fleets provides more than "marginally inadequate sealift" to meet a single theater deployment. Further, few of the added foreign-built vessels can be judged to have characteristics which make them of high military value.

This week, Maryland Shipbuilding and Drydock Company shut down all operations and closed after 100 years of operation, in all likelihood with finality. Also, early this week Zidell Exploration, Inc., Portland, OR, announced that it was terminating all marine construction and repair activities and would sell all equipment at auction. These closings bring to over twenty the number of important shipyards going out of business since 1981. We ask, "Is anyone within the Administration counting the loss of assets and capability that is occurring?"

This series of events comprises a compelling record for Congressional action to preserve the shipyard mobilization base before our ability to function as an essential part of the nation's industrial defense base becomes inoperable. In simplest terms, required support of the essential shipyard mobilization base is inconsistent with the proposals for continued foreign building, reflagging of foreign-built ships to the U.S. flag, or giving immediate access to government-impelled cargos to foreign-built reflagged ships as proposed in this bill.

PRINCIPAL ELEMENTS OF THIS LEGISLATION WILL ACCELERATE THE DECLINE OF THE SHIPYARD MOBILIZATION BASE

Of the five principal elements of the Merchant Marine Promotion Act of 1984, three will serve to exacerbate the difficulties facing commercial shipbuilders in America. These provisions would:

Allow for a period of 18 months subsidized liner operators to obtain permission to build operating subsidy-eligible ships overseas; and to "bank" that permission, using it at any time in the future, or perhaps to sell the authority or the vessel so acquired to another operator;

Grant immediate access to government-impelled cargos for those foreign-built ships, including the four Lykes' ships and two American President Lines' ships acquired abroad under authority of the Continuing Resolution passed last November; and

Permit reflagging of the two *Cunard* passenger vessels from British to American registry.

The Subcommittee is familiar with our argument that a defined level of shipyard capacity, in terms of both facilities and skilled manpower, must be maintained in order to ensure that the demands of mobilization can be met. An incorrect presumption continues to be the basis of shipbuilding policy—that the naval shipbuilding and repair program adequately provides all needed support for the shipyards of the nation. I have attached to this testimony, with the permission of Mr. Christie, a long time Washington consultant and advocate of maritime strength, a recent letter he received from Michael Deaver, Deputy Chief of Staff and Assistant to the President, which specifically shows the breadth and pervasiveness of this misconception.

As we have repeated so often, we understand the predicament faced by ship operators desiring to replace old tonnage with newer, more efficient vessels. We cannot say to this Subcommittee that the desired vessels could be built here at the prices available aboard. Nor do we believe that that segment of the liner industry which will be affected by this legislation has the ability with its existing capital structure and debt capacity to finance replacement vessels, however badly they are needed.

We submit that the Administration's error in failing to addrss the issue of the mobilization base will be compounded by yet another surrender to the deceiving perception that the shipping industry's problems can be fixed by the expediency of allowing the purchase of cheap foreign-build vessels. Must we continue to compound misconception with self-deception? We assert that until the maintenance of a shipyard base capable of meeting defense needs is assured, no U.S.-flag vessels, subsidized or unsubsidized, should be built or acquired abroad. This statement emphasizes the depth of our belief in the incorrectness of present policy.

As was indicated, we are aware of no compelling need for approval of "build foreign" at this time. Lykes' recent new building contracts in Japan are an example that can and may be followed by other subsidized operators. By its actions and as has been stated to the Congress by James Amoss, President of Lykes Bros., Lykes intends to operate these vessels in trades which do not require ODS for successful operation. Indeed, it is in the high volume Atlantic and Pacific trades where the future success of U.S.-flag liner vessels is most promising. These trades by their nature and characteristics require large non-self-sustaining vessels, if U.S.-flag liner vessels have any hope of competing with their foreign-flag competitors. These are not the types of vessels sought by the military to enhance sealift capability.

The most fundamental of the underlying tenets of the Merchant Marine Act of 1936 is that the national interest is served by maintaining U.S.-flag vessels, which can serve the sealift needs of the nation in national emergencies, in operation on most of the world's trade routes. This fundamental principle is being challenged by the operational facts of life in international shipping. Recently published financial results of the industry show that even with ODS, it is only on the high-volume routes that the liner industry can hope to survive given present policy. We must reconcile this fact with the intent of the Merchant Marine Act of 1936 to ensure the mobilization capacity of both American shipping and shipbuilding.

We will not belabor this point in respect to immediate access to government-impelled cargos. Here agian, the rationale in delaying the access to those cargos for foreign-built, reflagged vessels is to support U.S.-built, U.S.-flag vessels in the interest of national security. It is obvious that present policy as well as the proposed modification of policy is imperfectly conceived if measured by its support for this objective.

Is there a more compelling national security argument supporting foreign building or immediate access to all cargos? We have not heard one nor do we believe one exists.

THE RE-ENGINING PROGRAM AND CAPITAL CONSTRUCTION FUNDS FOR DOMESTIC OFFSHORE OPERATORS SHOULD BE PART OF A SHORT-TERM PLAN

The proposal to provide grants assisting ship operators in replacing less fuel-efficient power plants with new, more fuel-efficent engines has considerable merit. However, we counsel caution in assuming that owners will quickly move to take advantage of such a program. There are numerous factors which enter into such a decision, headed by the overall calculation of return on investment. Is the Subcommittee aware, for example, that a so-called fuel-efficient vessel trading into California ports must purchase pollution rights in order to enter the ports of call? These pollution rights are purchased at high cost and largely nullify the advantages of the low-speed diesel engines employed. Will other states in the future have such requirements and therefore compound the entire set of questions which must be addressed?

Under this plan, shipowners could obtain a grant equal to the price differential between the costs of re-engining a ship in the U.S. and doing so in a foreign shipyard. An energy tax credit, equal to 15 percent of the cost of the work would also be established. It is our view that these are minimum incentives to induce operators to re-engine vessels.

American shipyards would welcome the work which could be provided by this initiative. Unfortunately, there do not appear to be significant numbers of shipowners interested or financially able to take advatnage of it. Shipbuilders do not view a re-engining program as an adequate substitute for commercial shipbuilding.

We would welcome evidence that shows that the work which would result from the program will be significant. We also recommend that the program be expanded in scope as to the definition of work to be covered and that a permanent method of financing be provided. In our view, the future availability of unexpended ODS is an extremely fragile source of funds on which to rely.

Capital Construction Funds for domestic offshore operators will provide an incentive to save and invest income in new equipment, if markets can be predicted into the future. As with the re-engining proposal, we support this initiative but doubt

that it will create substantial shipyard work in the foreseeable future. We continue to urge that the entire 200-mile economic zone be brought within the purview of the Jones Act. It is our judgment that such action will provide badly needed shipyard work.

AN ALTERNATIVE—A REVISED TITLE VII PROGRAM TO MAINTAIN SHIPYARD CAPACITY AND PROVIDE SEALIFT ASSETS

We suggest strongly that the build foreign and CUNARD reflagging initiative of the proposed legislation will serve only to continue the fractious debate in industry and Congress. The continued pursuit of these initiatives promises only more heated, unprofitable discussion in this short legislative year.

As an alternative to both, we suggest that the Subcommittee consider rewriting Title VII of the Merchant Marine Act of 1936 to provide a short-time initiative to build ships in America and, at the same time, create vessels of immediate usefulness for military sealift.

Title VII should be amended to establish a revolving fund which will be funded initially by new appropriations or by reprogramming funds previously appropriated to the Department of Transportation and Department of the Navy.

Under this plan, ships would be built in U.S. private shipyards for the government's account. As the customer, the government would be able to purchase ships which are not avaiable from the Jones Act or deep water fleets and are not likely to be so provided. These ships can be chartered to U.S.-flag operators at rates which allow competition with foreign operators and thus provide militarily useful vessels in the state of highest readiness—that of operating vessels.

If the ships are not chartered, they could be sold or, more appropriately, placed in the National Defense Reserve Fleet to upgrade its current poor status. The proceeds received by DOT from the charter and sale of the ships would be put back in the revolving fund to support new construction and conversion work.

We are aware that several members of the Subcommittee and some elements of the Navy have considered and supported this idea as a means of providing badly needed sealift assets.

It is a good plan if it is capitalized and the government very quickly contracts to purchase vessels. If such a plan is not implemented soon, however, the nation must accept the loss of a substantial part of existing new construction capability. Time is quickly running out.

CONCLUSION

We find ourselves saying "nay" to a "promotional" plan yet again. We must do this because the plan is insufficient in addressing the pressing problems which affect the national security. Until the Administration and Congress recognize and solve the problems of our shipyard industrial mobilization base, we suspect that we may have to say "nay" many times again.

We are very hopeful that Congress, at least, is on the right track. The amendment to the DOD Authorization bill for Fiscal Year 1985 which established the Bennett-Byrd-Warner Commission should, at last, give us a precise and credible definition of the shipping and shipbuilding mobilization bases with the preeminent requirement that the Congress and the American people be made aware of the results and conclusion. It should also derive a plan for legislative action to solve the problem of maintaining those bases in the long term.

We encourage this Subcommittee to continue to seek a short-term solution. If it does not, the long-term solution may come too late for what may be an irreplaceable portion of our industry.

THE WHITE HOUSE,
Washington, July 23, 1984.

Mr. ALEXANDER K. CHRISTIE,
Alexander K. Christie Associates, 5305 Cromwell Drive, Bethesda, MD.

DEAR MR. CHRISTIE: Thank you very much for your very helpful letter on the concerns of United States shipbuilders. I also appreciate your suggestion that Mr. Lee Rice should be given an opportunity to meet with the President.

Please be assured that the matters you have raised are subjects of continuing, active consideration within the Administration. We appreciate the industry's feeling that the Navy shipbuilding program does not help the shipyards that are primarily dependent on commercial work. Although the issues surrounding the Navy's program are deep-seated and highly complex, it should be noted that the Administra-

tion's programs have yielded more shipyard business than those of any other free country.

Despite the dificulties foreseen by some builders, the value of the Navy's programs cannot be discounted. They are providing more business to American shipyards than in any period since World War II. The Navy work has entailed a total of $43.9 billion for the period 1981-1984. Another $84.1 billion will be appropriated for this work during 1985-1989. It is anticipated that about 40 percent of this goes directly to the yards and the remainder is spread among suppliers and ancillary system manufacturers throughout the country.

The Navy program is not limited exclusively to combat ships. It includes merchant-type auxiliaries (T-Ships) for the Military Sealift Command, which are spread among some yards that have traditionally depended primarily on commercial work. Nine of these yards have already received $3.1 billion in contracts for the construction of 22 T-Ships and the conversion of 21 existing vessels. While nearly all of these vessels will have been completed by early 1986, a considerable number of T-Ship contracts are expected to be awarded between Fiscal Years 1985 and 1989.

At a time when maritime recession has brought hardship to shipbuilders worldwide, our Navy program provides a unique stimulus for the American industry. The Administration has also helped shipbuilders in other ways. Preparation of increasing numbers of ships for layup in the reserve fleet has yielded a small but reliable source of business, primarily for the smaller yards. Additionally, our shipbuilding research and development efforts, co-funded by the government and the industry, are developing ways to increase shipyard productivity. It is estimated that improved shipbuilding methods introduced to our yards have already achieved productivity gains of 10 to 30 percent.

It is clear that U.S. shipyards are not cost-competitive in the world shipbuilding market, and it is doubtful that they can be in the foreseeable future. This problem is complicated by worldwide excess of capacity and the related depression in the prices of ships. We can't simply build ships for which there is no market, and it must be clear that the country must pay priority attention to the necessary and long overdue defense buildup. Nonetheless, we are deeply concerned about the shipbuilders' current problems, and the Navy is working closely with the Maritime Administration in an effort to find solutions that are consistent with prudent fiscal policy.

The Navy and the Maritime Administration are not working in isolation. Please be aware that the President is also concerned, as you have recognized in your letter. He is interested in the suggestions that have been advanced by the industry and any new thoughts that industry leaders may bring forth as we proceed. There have been a number of recommendations for constructive meetings with industry leaders and we are actively considering these recommendations.

Sincerely,

MICHAEL K. DEAVER,
Assistant to the President, Deputy Chief of Staff.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. Under your "build and charter" proposal, the Government would build the ships and charter them. At some point could the Government sell those ships to Jones Act operators?

Answer. The "build and charter" arrangement which we favor would be very similar to that in the current version of Title VII of the Merchant Marine Act of 1936. Under this plan, the ships could be sold to Jones Act operators, but not at below market rates. The ships would be sold or charatered to foreign trades operators at rates and prices designed to enable them to compete with foreign flag ships. The sale and charter to Jones Act operators would be at fair market rates and prices reflecting the actual capital cost of the ship. We do not intend that these ships would give an unfair competitive advantage to one Jones Act operator over another.

Question. Under the "build and charter" program recommended by the Shipbuilders and the SIU this morning, initial funding comes from reprograming funds previously appropriated to the Department of the Navy. Subsequent funds for the program would come from the money the Government receives from the charter or sale of the vessels. In other words, a revolving fund.

Inasmuch as the charter rates would not be high enough to recapture the cost of building the vessel, and, in the event of a sale, the selling price would have to be well below the cost of construction, is it realistic to expect that sufficient money will be paid into the revolving fund to allow for much ship construction after the initial funding has been exhausted?

Answer. Because the revolving fund is intended only to be a part of an interim solution to the national security problem arising from the decline of merchant shipbuilding, the exhaustion of the revolving fund in future years is, in our view, not of great importance to the Subcommittee's consideration of it. It is likely that the fund would be exhausted in the first procurement cycle unless additional funds were appropriated for its operation. Nevertheless, we view the revolving fund as the best interim method for supporting a part of the shipyard mobilization base in the immediate future and providing the Navy with much-needed sealift assets which otherwise will not be obtained.

Senator STEVENS. We will now hear from Frank Drozak, president of the Seafarers International Union of North America.

Good morning, Mr. Drozak.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA, AFL-CIO

Mr. DROZAK. Mr. Chairman and members of the subcommittee, my name is Frank Drozak.

On behalf of the Seafarers International Union, I would like to commend you and your staff for your hard work and dedication in offering this four-part proposal. As public officials charged with addressing the maritime needs of this country, yours is a difficult task even in the best of times. The current shipping depression, and the fortress of foreign promotional programs against which the U.S. merchant marine must compete, makes it even more difficult. In fact, the situation has grown so serious, that the calls of alarm have become calls for survival. We thank you Mr. Chairman, for hearing, and answering, those calls.

The witnesses who will testify, on behalf of the maritime industry today, have only one goal in mind. That is, to restore our Nation's essential maritime industry to the prominence that our economy and national security require. You will find no disagreement on that goal. However, opinions on how best to achieve it, have often varied. Still, the goal is the same, the intent is the same, only the methods differ.

In dealing with a complex problem, no solution can be perfect or without cost. We appreciate and respect the subcommittee's intention to present this proposal, not as the compromise of principle—but rather, the principle of honest compromise. As in all legislative proposals, however there are points about which people of goodwill might reasonably differ. We intended, as always, to be as reasonable when our opinions differ, as when we are in agreement.

The proposal to reengine the U.S.-flag fleet is a modest investment which will provide substantial returns, not only for the economy, but also for national security. Through training programs at the Seafarers Harry Lundeberg School of Seamanship, the SIU membership has been preparing for the marine diesel future. We welcome the intent of this proposal because it will make the U.S. merchant fleet more competitive and help to ensure employment opportunities over the long term. The fuel savings associated with diesel technology, will contribute to lower energy consumption for

the Nation as a whole, while substantially reducing operating costs for the U.S. merchant fleet.

The reestablishment of a domestic marine diesel industry, will reduce the Nation's reliance on foreign sources for this vital technolgy. It will also provide badly needed work for the essential shipbuilding and repair industry, providing employment in the yards, among suppliers and in the metal trades.

However, the allocation of surplus ODS funds as grants to reengine U.S.-flag vessels is not a sound use of these funds. We believe the use of surplus ODS moneys to fund merchant seamen health care, and alleviate problems of unfunded pension plans, would be more effective stewardship of national maritime resources. As would payment of cost differentials to restore an equal portion of U.S.-flag carriage under any United States-Soviet or United States-China grain agreement. The dire state of merchant seamen health care and pension programs, inhibits investment in the U.S. merchant marine because it casts doubt on the future of the industry.

Reprogramming for these purposes should not be rejected as an improper use of funds, benefiting only one segment of the industry. Using such funds in this manner, would be consistent with the original intent of the ODS program, and would benefit the entire industry, not just maritime labor.

In addition to increasing U.S. competitiveness and maintaining a U.S.-flag fleet, one of the principal reasons Congress established the ODS Program was to provide employment for seafaring labor. A reading of the 1936 act itself, as well as its legislative history, strongly suggests that the act was primarily intended to maintain the seafaring labor pool essential to national security. The use of any unspent ODS funds for seamen's health care or for pensions would, therefore, be wholly consistent with the intent of the program.

Seamen's health care and pension plans are areas in which the Federal Government has a long history of responsibility. For nearly two centuries, the medical needs of American merchant seamen were met by the U.S. Public Health Service hospitals and outpatient clinics. The system was expressly founded for the care of merchant seamen in recognition of their important role in national commerce and defense, as well as for the health hazards inherent in shipboard life and the unavailability of medical care at sea. In 1981, without warning, without justification, and without consideration of the dire consequences, the Federal Government abruptly abandoned this responsibility by closing PHS hospitals and outpatient clinics. Although many of the other groups which were served by the PHS system were transferred to other Federal health care programs, the American seafarer was forsaken and forgotten.

Consequently, the responsibility for medical care has fallen to an already ailing American shipping industry and the seafaring unions, through joint labor-management welfare plans. The financial burden of this unexpected responsibility has been very high, and it has seriously strained the limited resources of the entire industry. In many other countries those medical costs are paid by national health coverage, and are not aprt of operating costs for vessels registered in such countries. Aboard flag-of-convenience vessels, health care is unavailable to most crew members. In this

country the private sector pays those costs and the U.S.-flag fleet must bear a heavy burden which reduces its competitive posture. This problem could be substantially solved by placing unused ODS funds into a separate account to help offset the tremendous cost to the industry, of seamen's health care.

The other important area in which the funds could be effectively used is for pension plans. The dramatic decline in the size of the U.S.-flag fleet and the decrease in active seagoing jobs has created a huge unfunded pension obligation within the industry. This problem has continued to build as more and more seafarers retire, and fewer are able to work to support the plans.

This unfunded obligation is conservatively estimated to be around $500 million. The U.S. Government has contributed to this deficit through past, unfunded services for the Government's benefit in World War II, the Korean war, and the Vietnam war. During World War II, for instance, the U.S. merchant marine suffered a casualty rate second only to the U.S. Marine Corps. In that conflict, 6,000 merchant seamen, more than one-third of today's work force, sacrificed their lives in what President Lincoln called the last full measure of devotion. Considering that honorable record, and the continuing willingness of today's merchant seamen to risk the same fate, we dc not feel it inappropriate to ask for a full measure of Government support in this area.

Although MarAd is currently conducting a study to examine the extent and seriousness of this problem, without a large increase in the number of active seafarers, it is probable that any solution will necessitate an infusion of outside funds. Holding any unused ODS funds in a separate account for this purpose would provide an effective insurance policy until other solutions are found.

In addition to these suggestions, surplus ODS funds could also be used to insure maritime employment opportunities. An example would be Soviet and Chinese grain carriage. Ever since the resumption of the U.S.-U.S.S.R. grain trade, we have vigorously urged renewal of the expired bilateral maritime agreement between our two countries, for the carriage of that grain. If the agreement is renewed, these surplus ODS funds could be used for the carriage of grain on U.S. vessels in the same manner as ODS funds were used for this purpose in the 1970's. This would provide work for inactive U.S. ships, and seamen alike.

Along with the diesel replacement proposal, additional conversion work will be obtained through the provision which allows for the reflagging of foreign-built passenger vessels. It will create thousands of jobs for shipyard workers, shipboard labor, and vessel suppliers. Initially between $2 and $4 million would be spent to convert those vessels to U.S. standards. Another $5 million would be spent annually in routine maintenance and repair work, all in American shipyards.

In 1959, there were 44 passenger vessels flying the U.S. flag. Today, the Nation has but two deep sea passenger vessels to take advantage of the $4 billion a year passenger ship market. Even those vessels have been recently reflagged in the United States, otherwise there would be no American share of this lucrative and growing market.

As you know, the type of vessels being considered under this proposal carry more passengers than people living in many smaller American communities. To provide those people with the services they pay for, requires more than traditional maritime supplies such as bunker fuel, water provisions, et cetera. The suppliers of hotel and restaurant goods, wholesale food products, ground and air transportation and a variety of services in travel and tourism, entertainment and recreation industries will benefit as well. It should be noted also, that those goods and services will be obtained in a variety of ports, as needed, and represent only the expenditures made by vessel operators.

Another level of economic activity will be generated by the passengers themselves. Marketing studies have found that the average passenger spends $250 a day while in port. A total of 1,500 passengers aboard two vessels spending a minimum of only 75 days in port will generate nearly $30 million. That figure does not include the money spent by hundreds of crew members spending shore time in the same ports. Nor does it consider the taxes those working Americans would contribute to local, State, and Federal treasuries. Again, it must be emphasized that not all those revenues will be spent in one port, but in several ports and States, so that many will benefit rather than a few.

Adding these vessels to the U.S.-flag fleet will also double existing troopship capacity, for use in times of crisis. Current U.S. troopship capacity is limited to the aging relics anchored with the National Defense Reserve Fleet. By even the most optimistic estimates, those vessels would require 90 to 120 days to reach operational status.

No one will dispute that the use of troopships may not be necessary in a NATO conflict. One does not need a geography lesson, however, to note that Grenada, the Falkland Islands, Lebanon and other potential crises areas in the developing world, are not located in the European theater of operations. Of the approximately 130 developing nations, about 100 are coastal states. It is common knowledge that political realities prevent the use of reliable land-based facilities in most regions of the globe. We need not discuss the grim details of the tragedy in Lebanon to make that point. Land facilities are easily targeted by hostile forces. Land facilities cannot change course in the darkness, they cannot take evasive action or seek shelter under the protective cover of defense in depth, offered by U.S. warships such as the *Aegis* cruiser. Only passenger ships can take those protective measures.

Where would Britain have housed its fighting forces during the Falkland Islands crisis, if not aboard passenger vessels? Where would the United States billet its forces in a similar situation, which are commonplace in the resource-rich developing world?

The highly mobile shelter offered by passenger vessels is not limited strictly to military personnel. A useful example is the recent Grenada operation. In that crisis situation, the U.S. Government called on Britain to permit a passenger ship to be used for the evacuation of U.S. citizens if it became necessary. Fortunately the limited military opposition on the island did not require its use. We should not, however, allow that lesson to go unlearned. Next time our military forces might not have at their disposal an airstrip ca-

pable of landing large transport aircraft. Helicopter or small craft evacuation, for military or civilian personnel, to vessels steaming offshore, may be the only option. In that case, passenger ships offer the ideal solution.

As you know, the Soviet Union has the world's largest fleet of militarily useful passenger ships. These vessels provide badly needed hard currency for the Soviets, but more importantly are prepared to act on a moments notice as a military auxiliary. This proposal will help to redress that imbalance by providing the United States with a measure of the same capability.

The third proposal which would allow the use of a capital construction fund for the domestic trades is apparently a matter of some debate among the vessel operators who would be affected by it. Although we fully recognize its importance, we do not feel that it is appropriate for the Seafarers International Union to comment until the opinions and suggestions of the concerned operators have been weighed in the balance. Therefore, we respectfully decline comment at this time.

Finally, in regard to the fourth proposal, I am sure that the members of the subcommittee are aware that the last commercial deep-sea vessel was recently completed and launched from Avondale Shipyards in New Orleans, LA. All those who contributed to building the Exxon *Baytown*, management and labor alike, watched the ceremonies with great pride in their workmanship, but little faith in their future. As we all know, the U.S. commercial shipbuilding industrial base is tottering, and about to collapse. Promoting a build abroad program, without any effort to revitalize our domestic shipbuilding industry, will make the end quicker but no less painful. In a time span of only a few years and in some cases, only a few months, the yards which have provided productive work to hundreds of thousands of American workers will vanish. Our Nation will soon be completely, and even more dangerously, dependent on foreign yards for our merchant vessels. Although the alarm has long been sounded in our industry, it has gone unheard in the corridors of power where something can be done about it.

The dangerous level of dependence the United States has on foreign shipping and shipyards, contrasts sharply with the logic our Government applies to similar problems in other areas. To avoid shortages which would harm the Nation's defense industrial base and other essential manufacturing, a stockpile of strategic and critical materials was established. It is intended to insure operation of our essential industries in the event of a supply cutoff. And after experiencing a supply disruption of our energy sources, billions of dollars were wisely spent to create the strategic petroleum reserve.

Yet our already serious reliance on foreign shipyards to build our fleet is ignored, and short-term cost savings are used to hide dangerous long-term dependence. Other than the costly Ready Reserve Force, the Nation has no strategic shipbuilding or shipping reserves. The closest thing to back up capacity we have are the floating museum pieces in the misnamed National Defense Reserve Fleet [NDRF]. Yet to be made even marginally useful, those vessels would require extensive work in U.S. shipyards, which are soon to disappear. In such an event, foreign yards could not help us even if they wanted to.

Of the more than 2,000 vessels in the NDRF, more than 80 percent are 40 or more years old. Those vessels require large crews at a time that the seafaring workforce is in rapid decline. If maintaining such a fleet is wise policy, why doesn't the Air Force have reserve squadrons of World War II transport aircraft.

The problem of inadequate sealift cannot be overstated. According to the Secretary of the Navy, the level of Government funding for U.S. sealift, in relation to the magnitude of the problem—is only a drop in the bucket. An article in the Washington Post of August 3, 1984, which I have attached for the record, reveals that it is a very large bucket and a very small drop to fill it. The article describes a recent military exercise, Pressure Point 84, which was conducted by the Joint Chiefs of Staff. It demonstrated the problems our troops would face because of a lack of war fighting materiel at the scene of a crisis.

A method to restore health to the Nation's ailing shipbuilding industrial base, which we endorse, is a revision of the existing title VII program. A revised title VII should include the creation of a revolving fund which would be funded by allocating new appropriations or reallocating funds earmarked for agencies which have an interest in expanded U.S. sealift capability. Under this revised program, the U.S. Government, acting as the customer, would order for its account, the kinds of vessels which are most needed for national security purposes. The vessels built could be chartered to U.S.-flag operators, at rates which would give the U.S. merchant marine an opportunity to compete in the highly subsidized world shipping environment. This would mean that militarily useful vessels, and the crews that sail them, would be in a state of readiness which truly provides for national security.

Such a program could focus on the vessels most needed for military sealift, such as clean product tankers. Accompanied by a program to train crew members in the use of national defense features built into the vessels, the Nation could once again have a merchant fleet which is a healthy first arm of commerce as well as a strong fourth arm of defense. When critics voice their concerns about the cost of such a program, they should be informed about the high cost of the less desirable alternatives. A case in point is the Ready Reserve Force [RRF].

From the perspective of defense planners, the Ready Reserve Force is an unfortunate but necessary investment. It was hastily established in response to the rapid decline of the private U.S. merchant marine. Having no means to prevent that decline, Navy planners created the RRF to provide standby sealift capability for use in a crisis situation. It is maintained in a higher state of readiness than the NDRF, intended, in theory, to be on line in 5 to 10 days. With the weakened state of the shipyard mobilization base, however, that is considered by many to be highly optimistic.

Current DOD plans call for an RRF of 77 ships by 1988, up from the 44 ships envisioned just 3 years ago. When the 77 ship goal was established, it too was considered to be a sufficient back up capability. Unfortunately, the decline in the U.S.-flag fleet has accelerated faster than even those plans had anticipated. According to Navy sealift planners, the continuing decline means that the RRF must be increased beyond the 77 ship goal. Simply put, the United States

cannot do without these minimal sealift assets. If those vessels are not serving in the active merchant marine, the RRF is an expensive alternative.

The problem of expanding the RRF, however, is seriously compounded by the decline of American shipyards. Navy officials believe that insufficient shipyard capacity will exist to perform the breakout functions to reactivate the RRF within the 10-day timeframe. As a result, the Navy has determined that the RRF will have to be maintained in a much higher state of rediness, in order to reduce the strain on any remaining yards during a breakout effort. That higher readiness means higher costs and the Federal Government as the operator will pay no taxes nor provide year-round employment opportunities for essential shipboard labor.

The priority list established for expansion are roll on/roll off ships [RO/RO]; barge carriers; combination RO/RO's—breakbulk or container; clean product tankers from 20,000 to 80,000 DWT; heavylift ships; and self-sustaining breakbulk ships. The U.S.-flag merchant marine has few of these assets and will soon have even fewer. If all the RO/RO's currently in the private merchant marine were acquired by the MSC, they would not be able to meet the 1988 goal.

Further, the decline in the private fleet is rapidly reducing the critically important seagoing labor pool. Navy officials, have expressed the view that some form of limited reserve program will have to be established, to ensure that crews for an expanded RRF will be available during a breakout. The acquisition of additional vessels, maintenance of an expanded fleet in layup, and establishment of a crew reserve component, will necessitate an enormous increase in funding for the program. That amount would be spent on a warehouse sealift capability and not a healthy working fleet, operated by well trained and reliable crews. Unlike the RRF, working ships and crews contribute to national security and a healthy national economy simultaneously.

Therefore the question becomes: Is the Nation best served when the fourth arm of defense is kept strong through active and productive exercise, or when it is put on life support systems, in the hope that in a crisis, it can be made well again within 5 to 10 days?

Cargo reserved for vessels built under a revised title VII is the one principle that would address all those problems simultaneously. You have heard many times that cargo moves ships. It can also build ships and provide long-term employment to hundreds of thousands American workers in a variety of industries and in every State. Despite fantasies to the contrary, commercial cargo is no longer allocated on the basis of free enterprise. Among many nations of the world, free trade has become fixed trade, and for many State controlled, foreign-flag operators, supply and demand has become supply on demand. Normal cost considerations are irrelevant in many cases. For instance, the Soviet fleet carries 50 percent of Cuba's trade. Rather than return empty on the backhaul, Soviet vessels offer any low bid necessary to obtain cargoes. As a result they now carry about 15 percent of the lucrative coffee and cotton trade between the Caribbean and Western Europe. That forces European vessels and cross traders who no longer have a market share, to prey on U.S. trades for survival. The policy seems

to be: "when the Soviets beat up on us, we beat up on the U.S. fleet and free trade be damned."

When the United States imposed a grain embargo on the Soviet Union, the Soviets turned to France, among other nations, and became France's biggest customer for grain exports. The fact that France has a 50–50 cargo sharing agreement with the Soviet Union in the bulk trades did not deter but actually encouraged the Soviet grain purchase. I repeat, Mr. Chairman, a 50-percent cargo reservation program. That is 2½ times the maximum reservation levels contained in legislation currently pending in Congress. According to Lloyd's shipping economist, in 1980 the Soviets had the vessel capacity to guarantee carriage of only 7 percent of their grain imports. After the grain embargo, they built and acquired ships so that they can now guarantee carriage of 50 percent of grain imports. The President has said that we must learn from the example of the Soviet Union in maritime affairs. I only wish our Government would act rather than talk.

In the Middle East, the trends are in the same direction. Oil producing nations have been expanding refinery capacity and building or acquiring product tankers to carry those refinery products. Does anyone believe that those nations will invest billions of dollars in tanker fleets, only to allow them to be put in lay up, if they are underbid by other foreign-flag ships? I think we all know that they will reserve cargo for their fleets no matter if the policy is official or unofficial. The Saudi Government has for years provided below-cost bunker fuel to Saudi-flag vessels. In some cases U.S. oil companies have been minority owners, thus benefiting from Saudi Government subsidies while opposing similar support in the United States. How can that be called free trade by any stretch of the imagination? The U.S. Navy has just cause to be worried by the Nation's shortage of product tankers. As a result of these cargo sharing and other promotional schemes, the fleets of the Arab oil exporting nations have grown from 1 million dwt in 1970 to 19.2 million dwt in 1982 and they are still growing.

When the U.S. maritime industry raises these points, the Federal Government gives us an empty plate of free trade and tells us to eat our fill. The truth is, the U.S.-flag merchant marine cannot survive much longer on a cargo starvation diet. Don't blame the absence of cargo for U.S. ships on high American costs or the very real shipping recession, but on the blindness of officials who view the world as they want it to be rather than the way it really is.

Also useful in restoring the maritime industry, would be the extension of the Jones Act to the recent 200-mile economic zone. We are at the dawn of a new age in utilizing the oceans resources. The 200-mile economic zone, covered by the Jones Act, would mean problems associated with international negotiations concerning deep-sea mineral extraction would be avoided and domestic reserves of minerals and petroleum would be increased. This would assist the yards by increasing demand for new buildings and enhancing employment opportunities for shipboard labor.

As I have said many times, the public and private sectors must work together if the Nation is to again have a merchant marine it can depend upon. Both Government and industry owe it to the Nation to be something more than an obstacle to that revitaliza-

tion. The Seafarers International Union hopes that our suggestions, given in the spirit of cooperation, with help to achieve this worthy goal. Once again, Mr. Chairman, this subcommittee deserves credit for providing this open forum where differences of opinion may be expressed without hostility and with great hope. We know that as long as you keep up the good work, and we in the industry do our part, an honorable, effective solution will be found. Thank you.

Senator STEVENS. Thank you very much. There is some hope there. I heard some things that I have never heard before, so maybe this hearing is worthwhile.

Can you tell me something? You have listed several things for ODS. Seamen's health services is one. The wage differentials and the United States/Soviet and China trade is another, and unfunded pension liabilities is a third. What is your highest priority among these? Would it be seamen's health care?

Mr. DROZAK. That and the pension, because all three of them would have to go together in my opinion. But pension and welfare is running $55 to $60 a day per man-day out there. It has increased from almost $13 to $14 a day since the USPH hospitals were closed down. That is all relayed back to the ship owner, which increases his cost as to trying to be competitive. It is another added cost, and we feel that the Government has a responsibility.

Most of this unfunded moneys was created because of what my statement says, the World War II services, Korean war services, and Vietnam services. So it is a big burden.

Senator STEVENS. Well, I think we would be willing to go into that to see how much of it really is related to wartime service. That is a matter that I think has not been brought to the attention of this committee before. I would have to ask my friend from Hawaii. I don't recall that issue being raised during my service in the subcommittee.

If there is a portion of that unfunded pension liability that does relate to wartime service, I think we ought to explore it in depth. We should see to what extent it is burdening the pension plans for working seamen and their employers and see what we might do to help.

We would like to explore that, and we will do so in a separate hearing.

Some of the other items that you mentioned in your last statement I think warrant attention by the committee, too. We will gladly go into that further with you at a later time.

Senator Inouye.

Senator INOUYE. Thank you very much.

In the bill before us, liner operators may build foreign and receive ODS. Should this be extended to include dry bulkers and tankers?

Mr. DROZAK. It should be. If it's fair for one, it's fair for the other.

Senator INOUYE. In a build and charter proposal, do you think, the ships should be permitted in the Jones Act trade?

Mr. DROZAK. No, sir. No, sir; I do not. You would demolish the present Jones Act trade. You would create chaos out there.

Senator INOUYE. Should these ships be provided cargo preference, extended commercial cargo preference?

Mr. DROZAK. If there is additional cargo preference required, yes. I say in my statement, not to affect present existing operations. It would not be fair to put these ships in and let them compete against operators who have built ships for some period of time and be given this type of incentive. If they are additional, then that's where the line would have to be drawn. If additional preference cargoes are available, then I would say they should be.

Senator INOUYE. In your statement, you said that these ships built under the Build and Charter Program should be ships that are most needed for military purposes.

Mr. DROZAK. Correct.

Senator INOUYE. What sort of ship are you speaking of?

Mr. DROZAK. Product carriers, roll-on, roll-off ships, bulkers, the types that the military has testified it is short of, the ships that they are trying to buy up now, the type of old ships, stick ships, freight bulk carriers, ships that are needed.

You see, Senator, there is a real problem with this happening that a lot of us are not realizing. The maritime industry is shrinking and so is the manpower shrinking. If we build these ships and put them in a laid-up fleet, and when it comes time to need these ships, we are not going to have the qualified people. Unless there is some way of working these ships, to train and improve the quality of these seamen to meet the changing high technology change out there, we are going to have a bunch of ships with no qualified seamen to sail them.

There has to be some mechanism, Senator, where you have highly qualified and skilled crew members trained for those ships.

Senator INOUYE. I would assume that you would want the rates, the charter rates, to be at a level where these ships can operate competitively with foreign operators.

Mr. DROZAK. That is right.

Senator INOUYE. That would mean an additional subsidy. Would that be unfair to other ship operators?

Mr. DROZAK. I don't believe so, because you would not be going into their existing tonnage or carrying the existing tonnage that they are presently carrying. The liner operators are carrying 31 or 32 percent of that liner cargo. My feeling is if there is excess cargo that these ships could pick up, then they should be used and utilized out there. Otherwise, it is being conceded to the foreigner anyway.

He is the guy who is picking up the bulk of the cargo, not the American picking it up. His cargo has been maintained pretty much—and I am no expert on it—it has been stable for the last several years. It goes up and down, but the foreign shipper is the one who is picking up the bulk of that new-found cargo out there.

Senator INOUYE. Although you are not in the shipbuilding part of the industry, all of us are quite respectful of your research activities and your knowledge of what is happening in the total industry. Recently, Lykes Bros. contracted to build four cargo ships in Japan, container ships in Japan, and the president of that company said that it will cost about $150 million.

He also indicated that if he had to build these ships in U.S. yards, it would have cost $480 million. Is that a realistic assessment of the cost differential?

Mr. DROZAK. I would have to dispute that. It is absolutely totally out of line in my opinion, and I am no expert on shipbuilding, but absolutely the differential is, I would say, not near that. It could not be.

Senator INOUYE. What would you say would be a realistic cost differential?

Mr. DROZAK. Well, I am no shipyard expert, but I believe given an opportunity the shipyards today not only on a ship by ship case but also on a pattern of ships, of 4 ships, 6 ships, or 10 ships at a time, I believe they could bring their cost down to maybe a 50-percent difference, maybe more than that.

Senator INOUYE. Finally, getting back to the build-on charter, should or could these ships be sold to Jones Act operators?

Mr. DROZAK. I would not think so. I do not think they should be sold to them, because then you would be demolishing your domestic building for your shipbuilding base, and that is the only thing they have left now. If these ships were built and chartered into there, then it would move the American operator out of that domestic trade that he is presently in. He has invested a lot of money in that.

Senator INOUYE. I have one more question on the slow speed diesel. How can we build them?

Mr. DROZAK. I really do not know. I have heard so many arguments, Senator, that we cannot do it, or that we can do it. I think we can do it. We can do anything in this country we want to do, and we can do it as good or better than anybody else. We have always been able to do it. I just think it is because of the attitude of the people in this country and what has happened with the engineering technique in this country versus what has developed in Japan, in Europe, such as Germany and other countries. We have let that part slip away from us. I believe we can do it just as good as they can.

Senator INOUYE. Thank you very much.

Senator STEVENS. Thank you.

Senator Gorton.

Senator GORTON. I have no questions.

Senator STEVENS. Thank you very much. We appreciate your coming.

Our next witness is Peter J. Finnerty, vice president of public affairs, Sea-Land Service.

STATEMENT OF PETER J. FINNERTY, VICE PRESIDENT, PUBLIC AFFAIRS, SEA-LAND CORP., ACCOMPANIED BY EDWARD M. SHEA, COUNSEL

Mr. FINNERTY. Thank you, Mr. Chairman and members of the subcommittee.

I am Peter Finnerty, vice president, public affairs of Sea-Land Corp., the parent company of the liner carrier Sea-Land Service.

I am accompanied by Edward M. Shea of the law firm of Ragan & Mason.

We appreciate this opportunity to appear today in opposition to amendment 3386 to S. 1234. I have submitted to the subcommittee for the record our full statement and accompanying [1] memorandum, and at this time I would like to summarize those documents if I may.

Mr. Chairman, Sea-Land strongly opposes section 3 of the amendment to S. 1234, which would allow ODS operators to receive subsidy for operations with additional foreign-built vessels under existing ODS contracts. Since this provision would be so unfair to Sea-Land and so contrary to the public interest, I will address myself primarily to that section of the proposed amendment.

There are five basic reasons why Sea-Land believes enactment of section 3 would be a terrible mistake. First, payment of ODS on foreign-built vessels is unnecessary and wasteful. Sea-Land's record as a nonsubsidized liner operator demonstrates that ODS is not needed in order for a U.S.-flag liner operator to successfully compete with its foreign-flag counterparts.

The initiatives of Lykes Bros. Steamship Co. and U.S. Lines indicate that they also can compete without ODS. Specifically, Lykes has applied to MarAd for authority to begin unsubsidized trans-Pacific service with modern U.S.-flag, foreign-built vessels, and U.S. Lines has already entered into a contract with MarAd to operate such vessels in the trans-Pacific, trans-Atlantic, and/or around-the-world trades without ODS.

Second, section 3 would eliminate one of the major distinctions between subsidized and nonsubsidized operators, and provide ODS operators an unfair competitive advantage by allowing them to build foreign and still collect subsidy payments. This statutory change is indeed significant when one considers that ODS operators now receive, on the average, $3 million per ship per year of ODS.

Mr. Chairman, when the administration's freeze on new ODS contracts is factored into this scenario, it is evident that no new nonsubsidized U.S.-flag entrant could hope to establish any significant market presence. Thus the present ODS system for a select few liner operators is a Government-created anticompetitive barrier to entry.

The foregoing should not be interpreted to mean that we favor reopening the ODS Program to new or expanded contracts. If that occurred under section 3's terms, Sea-Land's current foreign-built vessels would still be ineligible while the new vessels of U.S. Lines and Lykes just referred to and all new foreign-built vessels acquired under section 3, would be eligible.

Such a prospect would be completely inequitable. And as the final irony, under section 3, foreign-built vessels acquired by ODS operators would not have to wait 3 years under section 901 before participating fully in the carriage of Government-impelled cargoes while foreign-built vessels acquired by Sea-Land or other nonsubsidized operators would.

Any elimination of the 3-year waiting period under 901 should be for all carriers, whether subsidized or not. However, it is not

[1] The attachments are in the Committee files.

enough to merely correct this inequity. The United States must face up to correcting the root problem of the failed ODS contract program. The ODS system is the problem, not the solution.

The third reason why enactment of section 3 would be such a mistake is that it would only serve to entrench the ODS Program. Our analysis indicates that section 3's 18-month window would provide an opportunity for the foreign-built replacement of at least 50 of the 102 ODS liner vessels which must be replaced between 1987 and the year 2004.

Once ODS operators' vessel replacement is provided by section 3, there will simply be no incentive for them to give up their subsidies. The current healthy momentum toward unsubsidized operations will be overwhelmed by a tide of billions of dollars of unnecessary ODS.

Mr. Chairman, the cost of continuing the ODS Program, with build-foreign authority, will indeed be staggering. An analysis prepared by Manalytics for Sea-Land shows that between $4.2 and $5.4 billion would have to be paid out in connection with contract performance during the remaining lives of the present contracts.

In our country's current budgetary crisis, this would be a tragic misallocation of Federal funds, for history shows that the ODS contract system has simply failed. Between 1969 and 1982, when the number of ODS operators and vessels and their share of the liner market was decreasing, the overall liner ODS outlays and the average ODS per vessel and the average ODS per ton was increasing. And Sea-Land is not alone in claiming that the ODS Program has been and will be a cost-benefit failure.

Please consider the following: Admiral Shear has repeatedly stated that the ODS Program simply is not working; CASO has proposed that MarAd establish guidelines for the buyout of ODS contracts; and both Lykes and Crowley/Delta have made specific applications to have their ODS contracts bought out, and in statements recently filed with this committee, they have reiterated that their goals are to become totally unsubsidized operators.

In 1982, about 35 percent of U.S.-flag foreign commerce liner cargo moved in nonsubsidized service. Within the next few years, when U.S. Lines and Lykes have made their transition to unsubsidized service with modern, foreign-built vessels in the trans-Atlantic and trans-Pacific trades, at least half of the liner cargo will be moving on unsubsidized U.S.-flag liner vessels.

It is impossible to justify ODS support for foreign-built U.S.-flag vessels when such a large portion of the U.S.-flag submarket will be carried by U.S.-flag foreign-built unsubsidized vessels.

Mr. Chairman, there were several distortions concerning Sea-Land which were made in Lykes Bros.' July 6, 1984, statement to this subcommittee, which I would like to correct for the record.

First, it is correct that Sea-Land in its formative years bought excess tonnage from the U.S. Government. We spent millions converting those vessels into containerships, thus pioneering a revolutionary innovation in shipping which has changed the face of this industry.

Second, the Government's Vietnam contract with Sea-Land resulted after DOD solicitations to over 100 companies. It was not a sole-source contract. We make no apologies for the Sea-Land contri-

butions to and earnings from the Vietnam supply effort. I will not take time at this point to cite the many commendations Sea-Land received from the Department of Defense regarding that effort.

Third, the 8 SL7 containerships were indeed sold to the U.S. Navy, just as the ODS liner operators have sold 73 vessels into the reserve fleet in the last 7 years alone. Lykes Brothers has arranged for the sale of 13 of its vessels in 1984 alone.

Fourth and, finally, it is absurd that Lykes, which through fiscal year 1982 had collected over $1 billion in ODS and had title XI guarantees of over $118 million would find something untoward about our ex-parent company, Reynolds, investing private capital in Sea-Land for expansion of the U.S. merchant marine on a non-subsidized basis.

The fourth point to be noted, Mr. Chairman, is that this legislation is not needed this year. There are no ODS vessel replacement obligations in 1984, and those arising in 1985 and in 1986 have already been provided for by the previous passage of section 615.

Therefore, not enacting section 3 at this time will not disadvantage ODS operators in meeting their vessel-replacement obligations.

Fifth, there exists a much more preferable alternative to passage of section 3. The short as well as long-term solution to the ODS operator's plight is a program for early termination of ODS contracts through contract amendments with an orderly phaseout of ODS, coupled with creation of new promotional incentives.

The first part of such a program, based upon the U.S. Lines agreement as originally adopted to phase out ODS while new automated vessels are being constructed in foreign yards, would require no enabling legislation. While even this program will require more than $1 billion of ODS over the next several years, it is only a fraction of what the ODS bill would be if section 3 is enacted.

In the hope that you will agree that additional incentives to go off subsidy are appropriate, Sea-Land has some suggestions which are set out in our submission at page 22 of the accompanying memorandum. We recognize that these initiatives cannot be legislated in this Congress, and present them as potential elements in what we hope will be the development of a comprehensive new maritime program early next year.

Before concluding, Mr. Chairman, let me briefly summarize Sea-Land's position on the other sections of the amendment. Sea-Land supports section 2, which provides for extension of CCF use to the coastwise and intercoastal trades. Sea-Land supports in principle the re-engining provisions in sections 4–6, provided it does not apply to Jones Act vessels or domestic trading, it is thoroughly studied first, is equally available to ODS as well as non-ODS operators, and without limitation regarding whether the vessels involved were built or rebuilt in the United States as opposed to abroad.

Sea-Land opposes the provisions for the purchase of vessels for the Reserve fleet because such purchases are already underway in a separate MarAd/Navy program, and thus this provision would reduce the amount of available re-engining funds.

Sea-Land strongly supports the basic integrity of the Jones Act and therefore we do not support section 7.

In closing, I repeat that in these times of severe national budgetary constraint, it would be a terrible mistake to unnecessarily expend billions of dollars of ODS for the operation of new foreign-built U.S.-flag vessels when those can be operated without that Government subsidy.

Thank you.

Senator STEVENS. As I understand it, you believe that all of our foreign trade can be carried on foreign-built vessels, and that such vessels do not need ODS to be competitive. Is that right?

Mr. FINNERTY. That is correct, Mr. Chairman. We believe that in the liner commerce, liner vessels that are modern, with slow speed diesels constructed in foreign yards, with high productivity do not need ODS in order to be competitive with foreign competitors.

Senator STEVENS. But with regard to coastwise trade, you are totally defending the Jones Act, including the requirement that these vessels be U.S. built?

Mr. FINNERTY. That is what the Jones Act provides, and we strongly support that provision.

Senator STEVENS. So that when domestic resources are transported between U.S. ports, say, Alaska fish brought to California ports, those goods must be brought in U.S.-built vessels?

Mr. FINNERTY. That is what the Jones Act provides, Senator, as you know.

Senator STEVENS. Which are built at what, a 4-to-1 ratio, compared to the cost of foreign-built ships at the present time?

Mr. FINNERTY. I do not think it is quite that high, but there is a differential; yes.

Senator STEVENS. So through the Nicholson Act we have to have U.S.-built fishing vessels, and we cannot compete with the foreign-built fishing vessels because of the Jones Act. We have to have U.S.-built processing vessels, which cannot compete with the foreign-built processing vessels.

And then, in addition to that, we have to have U.S.-built cargo vessels to take our fish to California or the south 48 ports. Ironically these cargo vessels cannot compete with foreign vessels that come over from the foreign processors.

The result is that 3½ billion pounds of fish caught in Alaska waters go to Korea and Japan every year. Sixty percent of that is brought back into the United States for consumption. The Jones Act and the Nicholson Act are the cause of that.

Mr. FINNERTY. Well, Senator Stevens, I do not think——

Senator STEVENS. You end up saying "let us protect the Jones Act" because you have Jones Act vessels, do you not?

Mr. FINNERTY. We have Jones Act vessels in certain Jones Act trade, Senator.

Senator STEVENS. In the Alaskan trade.

Mr. FINNERTY. Yes, sir.

Senator STEVENS. In the Alaska trade. So what you are really saying is that in the final analysis the shipbuilding industry in the United States is going to be building ships primarily for the Alaska trade, is it not? Is there any other domestic trade that has the possibility for substantial expansion in the balance of this century?

Mr. FINNERTY. Vessel replacement?

Senator STEVENS. We have the possibility to expand shipments from Alaska by 3 billion pounds in fish. We have 20 percent of the timber of the United States. We have half the coal of the United States. And we have 50 percent of the oil and gas of the United States.

So are we to have our resources transported to the continental United States in domestic-built vessels; are we to harvest the fish in domestic-built vessels and process them in domestic-built vessels when we must compete with foreign operations with lower capital costs?

The Japanese can take our coal from Alaska to Japan, clean it and bring it back into the south 48 cheaper than we could take coal from Alaska to the continental United States.

You do not quite understand my concerns, I think. I want a shipbuilding industry out there that has some unit costs of production that will allow Alaskan resources to be competitive.

Mr. FINNERTY. Well, we are certainly interested in that, Senator.

Senator STEVENS. Well, where are you going to get the additional ships if you do not have some U.S.-built ships in the foreign trade?

Mr. FINNERTY. Senator, as you know, we are on the brink of investing a very considerable amount of money in new Jones Act construction to serve the Alaskan marketplace.

Senator STEVENS. With increasing shipping rates at every stage of construction. You filed for an increase again this year. I do not see that any of this new shipbuilding is bringing down rates of shipping to or from Alaska. The United States is going to be dependent upon our State for basic resources for the next half century, and everything that is being done by the shipping industry is increasing the freight rates to our State.

Mr. FINNERTY. Well, I have a couple of things to cite that have tried to bring those shipbuilding costs down. Sea-Land has testified before this subcommittee on several occasions, and would be happy to provide the details yet again on how their shipbuilding costs can be reduced through changes in the CCF provisions, through elimination of the buy-American provisions on——

Senator STEVENS. But CCF is a subsidy. Everyone here this morning was talking about subsidy. CCF is a subsidy. You take the money you would pay as a taxpayer to the U.S. Treasury, put it into a fund, and utilize it when it is advantageous to do so.

Incidentally, Senator Magnuson and I started the CCF Program. I think Senator Inouye was here at the time. It is a great program, but it is a subsidy, is it not, benefiting to your Jones Act fleet?

Mr. FINNERTY. It does not apply to our Jones Act fleet, Senator, in the sense that we do not use it in our Jones Act fleet at this time. It has been applicable to certain of the Jones Act trades, and as I cited in my statement, we support it and indeed a year ago suggested to the subcommittee that it should be expanded to include the domestic coastwise and intercoastal trade.

We are very supportive of that assistance to the shipyards and the domestic waterborne commerce.

Senator STEVENS. All right. I find it interesting that so many people who use CCF come to this committee and criticize any suggestion that we have a direct subsidy that would stimulate the rebuilding of our shipyards. CCF is a subsidy.

Mr. FINNERTY. Well, Senator, I do not think I did criticize something that would help the shipyards. Our statement went to the effect that the provisions included in this amendment are potentially a benefit to the shipyards if limited to the foreign commerce.

If, on the other hand, they are to be extended to the Jones Act trades, it will totally disrupt the existing economics and create a very inequitable program in the future in terms of the capital investment that exists in that Jones Act fleet.

Senator STEVENS. There is no proposal here to extend the Jones Act fleet.

Senator Inouye, Senator Gorton has to leave. Could we yield to him?

Senator INOUYE. I would be pleased to do so.

Senator GORTON. Thank you very much.

I have only one question for you, after which I must leave.

Peter, Sea-Land obviously has been profitable without ODS. It obviously has done an outstanding job in putting itself in that position, but there are trade routes which you are not serving in that fashion which apparently would not be profitable without ODS, at least according to some of the testimony you have heard here this morning.

Would Sea-Land still oppose section 3 of the bill if the foreign-built vessels eligible for ODS pursuant to that bill were confined to operation in those trades in which they could not otherwise make a profit, like Africa, South America, and the like?

Mr. FINNERTY. Senator, we would certainly like to study such a proposal very carefully. As you, I believe, are aware, many of the trades today are undergoing the introduction of new technology and the introduction of large new vessels, most of them built abroad at this stage.

And with the application of load center ports and the use of feeder ships, it is questionable about whether or not the traditional means of serving areas such as Africa, South America, and other localities is necessarily the most efficient and productive manner of serving those localities in the future.

Senator GORTON. So the answer to the question is an open one, assuming there is an appropriate definition, and assuming that the premise on which the question was based is in fact correct.

Mr. FINNERTY. I would say yes, we certainly would want to be open-minded, to look at the proposal.

Senator GORTON. Thank you.

Thank you, Senator, for yielding.

Senator STEVENS. Senator Inouye.

Senator INOUYE. What is your position on build and charter?

Mr. FINNERTY. Senator, I would say that I have heard several of the witnesses commenting about a build and charter proposal. I have not yet seen the elements that would apply to it. I would think that it is necessary for me to say that initially we are somewhat dubious. We have seen several of these ideas advanced in the past, but basically we would want to see the actual ingredients of such a proposal, and study them carefully.

And then I would hope that such a proposal would be studied at a full hearing of the committee before action was taken. It could be

a very far reaching change, depending upon what ingredients and elements existed in it.

Senator INOUYE. So you are not prepared to comment on the statement just made by CASO and the shipbuilders?

Mr. FINNERTY. They apparently know something that we do not. I have not seen a build and charter proposal that everyone seems to be referring to.

Senator INOUYE. What about the exemption to the buy-American provision to provide slow speed diesels?

Mr. FINNERTY. Well, we think that it makes good sense. As we have testified previously to the subcommittee, to disapply or waive buy-American provisions on other than CDS vessels, we believe, as we have written and testified, is good. The 1936 act presently only requires that buy-American provisions apply to vessels constructed with CDS. Beyond that there should not be applied such requirements or regulations of the Maritime Administration.

For those requirements to be lifted, it would result in a very significant cost reduction on Jones Act ships. Therefore we do support no application of buy-American requirements on machinery components, including the propulsion machinery.

Senator INOUYE. Thank you very much.

Thank you, Mr. Chairman.

Senator STEVENS. Thank you, Senator Inouye.

Senator INOUYE. Again, I do have some additional questions for the record.

Senator STEVENS. Yes, Senator Inouye does have some questions that he will submit to you for the record.

[The statement follows:]

STATEMENT OF PETER J. FINNERTY, VICE PRESIDENT, PUBLIC AFFAIRS, SEA-LAND CORP.

Mr. Chairman, Members of the Subcommittee:

I am Peter J. Finnerty, Vice President, Public Affairs of Sea-Land Corporation, the parent company of the liner carrier Sea-Land Service, Inc. I am accompanied by Edward M. Shea, of the law firm of Ragan & Mason.

We appreciate this opportunity to appear today in opposition to Amendment No. 3386 to S. 1234.

Sea-Land, as an unsubsidized operator of U.S.-flag liner vessels in both the domestic and foreign commerce of the United States, faces competition from each and every one of the seven subsidized (ODS) liner operators. Because Section 3 of the Amendment (allowing ODS operators to receive subsidy for operations with additional foreign-built vessels under existing ODS contracts) would be so unfair to Sea-Land and so at odds with the public interest, we want to primarily address that matter although we will discuss the other provisions of the Amendment later in our statement. I respectfully request that the attachment Memorandum, which contains detailed support for and amplification of our statement, be made part of the record.

The build foreign authority in Section 3 is not needed, and should not become law. Before going into the substance of Sea-Land's opposition to Section 3, let me summarize the five basic reasons why we believe enactment of Section 3 would be a terrible mistake:

First, ODS for operation of new, automated foreign-built vessels is unnecessary and wasteful as evidenced by:

Sea-Land's record of service and growth in the foreign commerce of the United States without ODS.

Initiatives by two currently subsidized liner operators, U.S. Lines and Lykes, to operate such foreign-built vessels without ODS.

Second, it would provide ODS operators a profoundly unfair competitive advantage over non-subsidized operators because:

Combined with the freeze on new ODS contracts, it constitutes an anticompetitive barrier to entry into liner trade by potential new U.S.-flag competitors.

Subsidized operators would again be granted the right to build foreign, which has until recently been available only to non-subsidized U.S.-flag operators, and still be given a $38.00 cost advantage for every ton of cargo they carry.

Third, it would serve to entrench the costly ODS contract program:

Because—while purporting to be a short-term measure—it would provide the basis for meeting replacement obligations between 1987 and 1991 for up to 50 vessels (or about half) of the current ODS liner fleet required to be replaced by 2004.

Continuation of which will cost literally *billions of dollars,* when Congress is striving mightily to reduce the Federal Budget imbalance.

A program which has demonstrably failed;

As shown by its history, and

As shown by contemporary actions and comments of both the Martitime Administration and the ODS contractors themselves.

Fourth, there is no urgency in ODS vessel replacement created by contractual or vessel statutory life requirements. Although ODS liner operators have contractual vessel replacement requirements, they are not required to commit to replacement of vessels this year of next year.

Fifth, there exists a more desirable solution to the need for promotion of the U.S. liner fleet which:

does not require this legislation,

is much less expensive to the Government, and

is much more goal oriented and cost effective.

The remainder of my testimony amplifies these five points.

First, ODS on foreign-built vessels is unnecessary and wasteful.

The basic purpose of the ODS liner program is to provide, to the U.S. operators that hold ODS contracts, financial aid as required to meet foreign-flag competition so that U.S.-flag service will be at adequate levels on Essential Trade Routes. Subsidy is intended to be a last resort. That is, it is intended only for employment where unsubsidized U.S.-flag operations cannot compete with their foreign-flag counterparts. The legislative history of the Act clearly shows that ODS is not intended to assure that its recipients make a profit.

That Sea-Land has been able, without ODS, to compete successfully with its foreign-flag counterparts is easily established. Sea-Land has had an operating profit every year of its life.

It is important to recognize that Sea-Land is not the only U.S.-flag liner operator which fells it can compete without ODS if it can employ modern, automated U.S.-flag foreign-built vessels. The others are, for example:

Lykes, the most subsidized of all the ODS operators, which is applying to the Maritime Administration for authority to operate modern, U.S.-flag foreign-built containerships in the transpacific trade without ODS on those vessels; and

U.S. Lines, the second most subsidized operator which entered into a contract with the Maritime Administration to operate modern, U.S.-flag foreign-built containerships in the transpacific, transatlantic, and/or Around-the-World trades without ODS on those vessels.

Second, Section 3 would provide ODS operators an unfair competitive advantage.

Just what are the fundamental differences between Sea-Land and the ODS liner operators? Intangibles such as management ability and employee dedication aside, those differences are three in number:

Sea-Land has acquired its U.S.-flag containerships where economics dictated, whether foreign-built or U.S.-built. Except for special legislation in recent years, ODS operators have been required to contract for their vessels in U.S. yards under the CDS program, with the taxpayers underwriting up to 50 percent of the vessel cost, and with Title XI loan guarantees by the Government for up to 75 percent of the ODS operators' portion of the vessel cost.

The ODS operators now receive, on the average, $3 million per ship per year of ODS. Sea-Land receives no ODS.

ODS operators are subject to certain operating and administrative requirements of the 1936 Act under which they receive their ODS. As a non-subsidized operator, those provisions do not apply to Sea-Land.

Section 3 would eliminate the first difference noted above, continuing in force the remaining two. The ODS operator will get his subsidy not because he needs it to compete, but simply because he has subsidized before acquiring competitive foreign-built ships.

In 1982 ODS operators received an average of $38.00 of ODS per ton of cargo carried!

Please consider the competitive significance of this statistics. It means that when Sea-Land and an ODS operator are competing in the market place to carry a given

shipper's ton of cargo, the ODS operator has a head start on Sea-Land of $38 that he uses as a profit producing cost offset. There are many commercial commodities that move in the United States foreign commerce at rates of less than $100 per long ton! If a shipper selects an ODS operator, that subsidized operator receives the $100 (or less) per ton from the shipper plus $38 from the Treasury of the United States. When a non-subsidized operator is selected, it receives only the $100 (or less) per ton from the shipper, and any tax that operator pays on whatever profit is realized goes with other taxpayer dollars to pay $38 per ton in ODS to its subsidized competitors. We know of no other line of business where some but not all competitors in that business have such a government provided competitive advantage.

In earlier years, at least the ODS program was equally available to all who were qualified and who were willing to abide by requirements of the Act and responsibilities contained in the standard ODS contract. But even that mitigating factor no longer exists. The Administration has made it absolutely clear that no new applications for ODS will be considered. Accordingly, the closed ODS program, combined with putting the ODS operators on capital expense parity with non-subsidized operators by allowing ODS operators to use foreign-built vessels, constitutes a government created, anticompetitive barrier to new entry into the U.S. liner foreign commerce by any new U.S.-flag competitor. New non-subsidized U.S.-flag entrants could not hope to obtain and maintain a significant presence in such an artificial market environment.

Third, Section 3 will serve only to entrench the costly ODS program.

Mr. Chairman, when you introduced the S. 1234 amendments you indicated that its provisions were not a panacea for the long term, and that in 1985, less than six months from now, the Subcommittee would be looking at industry problems in a comprehensive way. But enactment of Section 3 now would prejudge the issue and would remove, for many years into the future, any incentive for the ODS liner operators to get off subsidy and truly compete. Our analysis indicates that a new 18 month window for ODS liner operators could provide the vehicle for foreign-built replacement of 50 liner vessels; or about half of the 102 liner vessels which must be replaced between 1987 and 2004 under current or potentially renewed ODS liner contracts.

The most serious problem facing the Congress and our country today is the huge and growing Federal budget deficit. Clearly, paring back current and projected deficits through reduced government spending while assuring that worthwhile programs are not crippled through underfunding is a difficult mission. But, it must be done. The opportunity presents itself today to start the process for eliminating literally billions of dollars of unnecessary government spending in future budgets and benefit the U.S. Merchant Marine and American seamen in the process.

The momentum which has been achieved through the U.S. Lines and Lykes moves towards unsubsidized operations with new, foreign-built vessels will be reversed if Section 3 is enacted. There will be no incentive to go off ODS if it is available for additional new foreign-built U.S.-flag vessels. It is clear that, as long as CDS is unavailable, at least some ODS operators will seek episodic legislation which will allow them to continue to receive ODS while replacing their fleet with foreign-built U.S.-flag vessels.

In that regard, we asked Manalytics, Inc., respected transportation and distribution consultants, to estimate the amount of ODS which would have to be paid over the life of existing ODS contracts under various scenarios which assume authority to both acquire foreign-built vessels and receive ODS. Their report on this matter is summarized in and enclosed with our Memorandum. The Manalytics analysis shows that between $4.2 and $5.4 billion of taxpayers' money would have to be paid out in connection with contract performance during the remaining lives of present contracts!

In the current climate of budgetary crisis, these huge government financial commitments are unjustifiable in and of themselves. What makes it worse, however, is that the $4.2 billion estimate assumes no growth of the ODS carriers' market share. That figure will permit ODS liner capacity only to keep pace with what it is today, when the U.S. liner fleet is carrying only about 25 percent of the market. The goal of the Act has been generally interpreted to be 50% U.S.-flag participation. If it is assumed that the ODS operators will add the capacity necessary for contributing to the achievement of even a 40% U.S. market share and anticipating market growth during the remainder of the 20th century, the ODS needed would be $5.4 billion.

This, Mr. Chairman, will be a classic example of throwing good money after bad; for history shows that the ODS contract system is a failed program.

The latest statistics that were before Congress when it enacted the 1970 Amendments to the Act were those for 1969. At that time, Congress was dissatisfied with

performance under the Act, and stated in enacting the 1970 Amendments that one of the purposes was to reduce reliance on ODS. 1982 data is used below for comparison purposes because it is the latest available from the Maritime Administration.

During that 1969-1982 period, the ODS liner operators—despite receiving over $3 billion of ODS—actually diminished in terms of:

number of ODS liner carriers, from 14 to eight (seven currently),

ODS liner vessels, from 293 to 144, and

most importantly, ODS liner cargo market share, from 20% to 17%.

While all these ODS service reductions were occurring, all measures of ODS costs were increasing. That is:

the amount of overall liner ODS outlays, from about $195 million to about $355 million annually, or almost double the amount of ODS for half as many ODS vessels,

average ODS per liner vessel, almost quadrupling from abut $666,000 to about $2,470,000, ($3,000,000 in 1984), and

ODS per ton of liner cargo carried, from about $23.60 per ton to $38.00 per ton.

Mr. Chairman, please do not think that Sea-Land is the sole voice in the wilderness in claiming that the ODS program has been and will be a cost/benefit failure. Besides the recent steps away from ODS status taken by Lykes and U.S. Lines which I have already referred to, we urge you to consider the following:

Time and time again Admiral Shear, the Maritime Administrator, has stated that the ODS program simply is not working.

CASO, the organization of the subsidized liner operators, has proposed that the Maritime Administration establish guidelines for the buy-out of ODS contracts. The fact that the terms of the CASO guidelines proposal would result in an unwarranted huge windfall to the ODS operators aside, CASO does recognize the fundamental proposition that its membership would be better off out from under their ODS contracts.

Both Lykes and Crowley/Delta (another major recipient of ODS) have made specific applications to have their ODS contracts bought out (again at exhorbitant amounts).

In statements filed with this Committee recently in connection with oversight hearings on Maritime Administration buy-out authority, both Crowley/Delta and Lykes have reiterated that their goals are to become totally unsubsidized operators.

In 1982, about 35% of U.S.-flag foreign commerce liner cargo moved in non-subsidized service. Within the next few years—when U.S. Lines and Lykes have made their transition to unsubsidized service with modern, foreign-built vessels in the transatlantic and transpacific trades—at least half of the U.S.-flag share of liner cargo will be moving on unsubsidized liner vessels. It is impossible to justify ODS support for foreign-built U.S.-flag vessels when such a large portion of the U.S.-flag sub-market will be carried by U.S.-flag foreign-built, unsubsidized vessels.

Thus, the affected parties—the Maritime Administration, ODS liner operators themselves, and their unsubsidized U.S.-flag competitors—recognize that the ODS contract program needs to be replaced. They also recognize that the ODS liner operators must replace their aging, inefficient fleets and, absent CDS, must do so in foreign yards. There already has been a shift towards non-subsidized U.S.-flag liner service with such vessels.

Fourth, legislation is not needed this year.

Please understand that not enacting Section 3 now will not disadvantage the ODS operators meeting vessel replacement obligations. There are no ODS liner vessels which reach the end of their statutory lives in 1984. Six vessels (those of Delta) will reach that age in 1985 and 1986. However, under the previous foreign-building (Section 615) window, Delta received authority to build vessels which will clearly cover replacement of at least those six vessels. The statutory lives of a large number of ODS liner vessels do not expire until the 1987-1991 time frame. This is not to say that the ODS operators do not have current competitive problems with their fleets. Many of their vessels have been laid up or sold off to the National Defense Reserve Fleet because they are not competitive. But that has nothing to do with contract replacement obligations or vessel statutory lives.

Fifth, a preferable alternative to Section 3 exists.

The short and long term solution to the ODS operators' plight is a program for early termination of ODS contracts with an orderly phase-out (as distinguished from buy-out) of ODS and, perhaps, incentives to become unsubsidized. Let me explain.

The first part of this program needs no enabling legislation. This is, using as the general precedent the U.S. Lines agreement as originally adopted to phase-out ODS (but to earn ODS during the phase-out period) while new, automated vessels are being constructed in foreign yards, the Maritime Administration should promulgate

a policy encouraging comparable early ODS contract termination agreements. Unlike the U.S. Lines transaction, as altered by subsequent events, however, the policy should be that, at the end of the transition period, the operator should be totally off of ODS, and thus not a mixed subsidized/non-subsidized operation. Even this phase-out program will—as the Manalytics analysis notes—require more than a billion dollars of ODS appropriations over the next several years. But that amount is only a small fraction of what the ODS bill to the taxpayers would be if Section 3 were enacted. Sea-Land has no doubt that the major ODS liner operators will take advantage of this early termination opportunity if it is made clear to them that Congress and the Administration have no intention:

to provide them with a windfall under their ODS contract buy-out scheme; nor

to extricate them from their current dilemma regarding the replacement of their old, inefficient fleet through the palliative of advanced replacement with foreign vessels with continuing ODS under Section 3 of the Amendment.

In the hope that you will agree that additional incentives to go off subsidy are appropriate, Sea-Land has some suggestions which are set out in the attached Memorandum. These suggestions will not only further the dismantling of the failed ODS contract program, but also will further the additional public benefit of making the U.S.-flag liner fleet more efficient and thus more likely to increase its currently low market share. We recognize that these initiatives cannot be legislated in this Congress. We present them as potential elements for consideration in what we hope will be the development of a new Maritime program enacted in the next Congress in substitution for existing policies, including the ODS contract program.

Before concluding, let me briefly summarize Sea-Land's position on the other sections of the Amendment:

Sea-Land supports extension of CCF use in the domestic trades as provided for in Section 2.

Sea-Land supports the basic concept of Sections 4–6 to extend government support for fuel-efficient re-engining, provided it does not apply to Jones Act vessels or domestic trading, and that in U.S. foreign commerce it is equally available to ODS and non-ODS operators and for all vessels regardless of where they were built or rebuilt. However, Sea-Land opposes the provisions for the purchase of vessels for the National Defense Reserve Fleet because such purchases are already underway in separate Maritime Administration/Navy program, and this provision would reduce the amount of the funds available for the re-engining program.

In regard to Section 7, Sea-Land has long been a defender of the basic integrity of the Jones Act and, while it is not in the passenger business, it most respectfully must continue to defend the Jones Act. Consequently, we cannot support Section 7.

In closing, we wish to repeat that Sea-Land's track record combined with the initiatives which have been taken by some of the major ODS operators themselves are conclusive evidence that ODS is not necessary on new foreign-built U.S.-flag vessels to compete with the foreign carriers. In these times of severe budgetary constraints, it would be a terrible mistake to perpetuate payment of billions of dollars of ODS for operations with such vessels.

Thank you for your attention.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. The Administration has said it supports the Jones Act. And yet, it also supports H.R. 89, which would breach the Jones Act by permitting foreign-flag vessels to serve Puerto Rico. And, of course, the proposal before us today would also breach the Jones Act by permitting two foreign-built vessels to be re-flagged U.S., with coastwise trading privileges.

It seems to me that once Congress opens the door to legislate an exception, simple equity makes it difficult to close that door. H.R. 89 is, I believe, a case in point. If we legislate an exemption for Puerto Rico so that it may develop additional tourism and transportation resources, why shouldn't Hawaii, Alaska, Guam, American Samoa be given the same opportunity? Similarly, if we permit the two Cunard vessels to be re-flagged with coastwise trading privileges, why shouldn't we do the same for anyone else making such a request. And, if we do, what has happened to the Jones Act, and the national interest objectives it is intended to promote?

Answer. As Sea-Land articulated in its Statement and accompanying Memorandum, it has long been a defender of the basic integrity of the Jones Act. For this reason, it cannot support Section 7 of Amendment No. 3386 to S. 1234 which pro-

vides for the re-flagging of the Cunard Princess and Cunard Countess. This type of exception to the Jones Act could lead to others. Sea-Land has solicited bids from U.S. shipyards for three domestic built replacement vessels for its Alaska operations. An investment of more than $150 million of private capital in such vessels would be endangered if a Jones Act waiver were enacted for cargo ships for the Alaska trade.

Question. I believe it is accurate to say that 'slow speed diesel' engines cannot be manufactured in the United States at the present time. I believe we can, however, build 'medium speed diesels'.

(a) In international liner shipping, for example, could U.S.-flag 'medium speed diesels' be competitive with 'slow speed diesels'?

(b) If not, and 'slow speed diesels' are necessary for the U.S. liner fleet to be competitive, how can U.S.-flag operators do anything but build foreign?

I realize that the Avondale Yard built three slow speed diesels for APL, but those engines were built by Sulzer Brothers, Ltd. of Switzerland, pursuant to a MARAD waiver of the 'Buy American' provisions in our law.

Answer. Medium speed diesel engines can be manufactured in the United States at the present time, but ships built with such engines would not be competitive with vessels built abroad with slow speed diesels. This is due to the fact that, in comparison with slow speed diesel engines, medium speed diesel engines 1) have a higher maintenance cost, due to the greater number of valves, 2) are not as fuel efficient, 3) burn a heavier, more expensive grade of fuel oil, 4) have an inferior overall operating efficiency and 5) are more expensive to build.

While this does point to the need for the U.S.-flag operators to have the flexibility to build abroad where slow speed diesel engines are available, it does not in any manner indicate that Section 3 of Amendment No. 3386 to S. 1234 is the solution. As Sea-Land pointed out in its Statement and accompanying Memorandum, Section 3 would perpetuate the unnecessary and wasteful ODS program, and provide ODS operators an unfair competitive advantage over the non-subsidized operators. The need for vessels powered by slow speed diesel engines does, however, underscore the importance of Sea-Land's alternative proposal. That proposal, which provides for the orderly phase-out of ODS contracts through contract amendments, would give U.S.-flag operators the needed flexibility to construct their vessels abroad with slow speed diesel engines.

Question. In addition to being eligible for ODS, a liner vessel built in a foreign yard or acquired foreign under Senator Stevens' proposal would not have to operate under the U.S.-flag for 3 years before it would be eligible to carry government preference cargoes. It would be eligible immediately.

However, any other U.S.-flag vessel which is built or acquired foreign, would still have to wait 3 years before it becomes eligible to carry government preference cargoes.

For example, vessels that Sea-Land builds foreign as well as the ones Lykes has contracted to build foreign will have to wait 3 years before being eligible to carry government preference cargoes.

Would Senator Stevens' proposal therefore give vessels built under it an unfair competitive advantage?

Answer. Pursuant to 46 U.S.C. § 1241(b)(1) foreign-built or -rebuilt vessels must be documented under the laws of the U.S. for three years before they can carry government preference cargoes. The elimination of this three year waiting period for vessels constructed pursuant to Section 3 of the Amendment, would provide them with an unfair competitive advantage. That is, not only would these vessels enjoy the benefits of foreign construction plus operating differential subsidy, but they would also have immediate access to government preference cargoes. In the event that Section 3 is enacted, simple fairness would dictate that all existing and future foreign-built U.S.-flag vessels be eligible to carry preference cargoes regardless of when they were first documented under the U.S. flag. In saying this, however, we must reiterate that such a change to Section 3 would not diminish Sea-Land's fundamental objections to Section 3 as those objections are set forth in our Statement and accompanying Memorandum.

Question. In their testimony, the Shipbuilders urge a 'build and charter' program. Do you support this proposal?

Both the Shipbuilders and the SIU recommend a 'build and charter' program. If the Government were to build these vessels, and then charter them at low rates, should the vessels be allowed to operate in the Jones Act trades?

Would vessels built under a 'build and charter' program have a competitive advantage over other U.S. flag vessels not built under such a program?

Under the 'build and charter' program recommended by the Shipbuilders and the SIU this morning initial funding would come from reprogramming funds previously appropriated to the Department of the Navy.

Subsequent funds for the program would come from the money the Government receives from the charter or sale of the vessels. In other words, a revolving fund.

Inasmuch as the charter rates would not be high enough to recapture the cost of building the vessel, and, in the event of a sale, the selling price would have to be well below the cost of construction, is it realistic to expect that sufficient money will be paid into the revolving fund to allow for much ship construction after the initial funding has been exhausted?

Answer. To Sea-Land's knowledge there is currently no concrete build and charter program which has been put forth by any party. At the August 9, 1984 hearing on Amendment No. 3386 to S. 1234, the Shipbuilder's Council of America and the Seafarer's International Union briefly outlined similar build and charter programs, however, these are only vague proposals.

Based upon the little information which is available about these proposals, Sea-Land cannot support these build and charter programs for the following reasons. First, the moneys paid into the revolving fund would never be sufficient to allow for much ship construction after the initial funding was exhausted. In order for these vessels to be competitive with foreign-built vessels, as contemplated by the proposals, the sale or charter rate would have to be substantially below the cost of construction. Since this income would not be enough to fund additional construction, continued government appropriations for the fund would be necessary.

Second, although the proposals are silent as to the use of the vessels, if they are eligible for the Jones Act trade at reduced charter or sale rates, the result would be the subsidization of the domestic trades. This would place domestic operators, who have invested substantial sums in U.S.-built vessels, at a serious competitive disadvantage. They could not hope to compete with new more efficient government subsidized vessels.

Third, even if one were to assume that the vessels are eligible only for the foreign trade, since slow speed diesel engines are not available in the United States, it is unlikely that these vessels would be competitive with foreign-built vessels.

Fourth, the requirement that the vessels be militarily useful would probably result in the construction of vessels which are not commercially competitive. Of course, since it is not known which vessel types will be given priority by the military, the commercial practicality of these vessels cannot be determined at this time.

Finally, even if the foregoing concerns could be resolved, Sea-Land could not support the build and charter program on principle. "Build and charter" is merely a subsidy by another name which would discourage private sector investment in U.S.-built vessels. Further, as noted above, to the extent these vessels would be Jones Act qualified, the program would bring about the subsidization of the domestic trades. Most importantly for all existing owners and operators of U.S.-flag vessels constructed within the past ten years or now under contract for construction, their multi-billions of dollars invested in their fleets would be endangered by new subsidized vessels which would overtonnage trades which are presently already facing added tonnage entry.

Question. The Shipbuilders propose a 'build and charter' program to build commercial vessels which are militarily useful.

Would vessels which the military considers useful, be the same kinds of vessels our merchant marine needs to be competitive in international shipping?

The Shipbuilders' statement urges "a short-term initiative to build commercial ships in America of immediate usefulness for military sealift". In other words a 'build and charter' program.

(A) What specific type of commercial ships would be "militarily useful"?

(B) Would they be *fast* and therefore propelled by steam turbine engines, or slow speed diesels?

Answer. The Shipbuilders build and charter proposal would lead to the construction of vessels having a high military utility value but which would likely be commercially obsolete. If the Department of Defense (DOD) is to continue its reliance upon the U.S. Merchant Marine to provide essential sealift support in time of war or national emergency, we think it essential to adopt a program having both commercial *and* military viability.

The DOD has regularly stated its priorities for vessel acquisitions, including roll-on/roll-off, break-bulk, barge carriers, and self-sustaining containerships. However, with but limited exceptions, these vessel types are no longer competitive in international commercial shipping. Additionally, the DOD generally prefers to acquire smaller vessels than are being built in commercial service. The trend today is for

operators to construct fewer but larger vessels. The construction of large containerships in foreign yards by Lykes and U.S. Lines is a very relevant example.

As noted above, one of the vessel types which has been of greatest interest to the military has been the roll-on roll-off vessel. The Navy has been able to acquire a number of such vessels from commercial operators recently for the simple reason that they are commercially practical or competitive. A build and charter program to build the very types of ships that commercial operators are finding so impractical that they are selling or chartering them to the Government, just does not make sense.

We recommend development of a program that will stimulate the construction of commercially viable vessels upon which national defense features are either incorported or may be readily installed. Such a step would strengthen the viability of the U.S. Mercant Fleet, enhance our industry's ability to respond to national defense needs, and stimulate the construction of modern merchant vessels to support our commercial and military requirements in peace-time as well.

While we are not aware of any categorical preference of the military for one type of engine, most of the vessels which the military has expressed an interest in were and are constructed with steam turbine engines. Also, to the extent the military desires fast vessels, steam turbine engines would be called for due to their higher horsepower output. Steam turbine engines are, however, not as fuel efficient as slow speed diesel engines and, therefore, reduce the competitiveness of a commercial vessel. As a final note, the determination of the type of engine to be used in a build and charter program is, to a great extent, an academic question. The technology to construct vessels with slow speed diesel engines does not exist in the U.S. at the present time.

Question. Since MarAd's budget request for ODS funds is based on a projection of how much money will be needed to liquidate obligations incurred in the next fiscal year, wouldn't Senator Stevens' proposal create a real risk that the annual ODS budget request will be unnecessarily high to ensure an 'unobligated balance' which would be transferred to the re-engining fund; or, if the ODS budget request were 'bare boned', that there will be little or no 'unobligated balance' to transfer to the 're-engining' fund?

Answer. The concerns expressed in this question are valid and they underscore Sea-Land's position that this re-engining proposal requires exacting study prior to enactment. Certainly, in order for this proposal to achieve its goal of making existing U.S.-flag vessels more competitive, it cannot be dependent upon an "unobligated balance" which may or may not exist in any given year. Therefore, a separate appropriation targeted for vessels to be used exclusively in the U.S. foreign commerce would be better suited for this program.

It is important to realize that the existence of unused ODS appropriations is attributable to the lay-up of subsidized vessels. These lay-ups have, in turn, been brought about because U.S.-flag vessels without slow speed diesel engines are simply not competitive with foreign-built vessels. Therefore, a carefully tailored program could be very helpful in returning presently unused U.S.-flag vessels to productive service. A possible program would be to authorize the re-engining of such vessels abroad on condition that they then be operated without ODS.

Question. Under the build and charter program would it also be necessary to enact additional cargo preference laws to ensure that those vessels are used?

Answer. Since Sea-Land has not seen any definite 'build and charter' proposal, it is difficult to speculate as to whether vessels constructed under such a program would be competitive. As our prior answers indicate, we expect that such vessels would not likely be commercially competitive. Therefore, they would lose money unless cargo were forced to move in them. Sea-Land would not, however, support new cargo preference laws in order to ensure the utilization of commercially non-competitive vessels.

Senator STEVENS. Our last witness is Jesse M. Calhoon, president of the Maritime Engineers, Beneficial Association, or NMEBA.

STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. CALHOON. Good morning, Mr. Chairman.

Mr. Chairman, I have a prepared statement that I previously submitted to the committee.

Senator STEVENS. Incidentally, I was asked the other day, why do we always call you last? I think it should show that my friend requests to appear last in most instances. I just want to make sure that we are not discriminating against NMEBA.

Mr. CALHOON. You are absolutely correct, Mr. Chairman. I would rather be in the cleanup hitter position.

Senator STEVENS. Thank you.

Mr. CALHOON. Mr. Chairman, I will submit my statement for the record and will try to go through the statement in a very brief summary.

It is a pleasure to be here.

Mr. Chairman, much of this legislation is absolutely necessary if we are to strengthen the American merchant marine. However, I am unable to support this proposed legislation as it is now written. I take this position with great reluctance, for you have long been a friend of the merchant marine and long been a proponent of strengthening our national security. I fully appreciate and recognize the spirit of constructive compromise which has motivated this legislation. And as I just said, much of what you propose I can support with enthusiasm.

Mr. Chairman, I then go and say that on any comprehensive proposal there are going to have to be a lot of tradeoffs within the industry. There are going to have to be compromises between the various segments of the industry, and this will take, of necessity, time to work out.

I have listened to some of Senator Inouye's questions this morning, and you can see there are still some very deep divisions about some of the very constructive parts of this legislation.

Mr. Chairman, I support build foreign, but the legislation is too narrowly drafted. Right now the crying need is not for build foreign for liner vessels, but the crying need is to build the bulk vessels and the specialty ship.

I testified before this committee not long ago where the farmers, the farm interests, were complaining very bitterly over the rates that were being charged on the Public Law 480 cargo, and justifiably so. But with that window that was opened in 1981, we now have some new vessels in that trade. The rates have been reduced about 50 percent. We need more of those types of ships immediately to give to farmers some of the relief they are asking for.

Because of Government policies and because of Government regulations and laws, this was never possible.

First, the Department of Agriculture does not put out long-term bids, and shipowners do not like to build ships for a spot market.

Second, because they had to build in the United States, it made it so expensive or they were disbarred from Public Law 480 for 3 years. So none were built.

I heard testimony this morning that indicated that a phasein for additional Public Law 480 cargo would be acceptable as long as it did not displace any of the existing vessels that have been built for this trade.

Mr. Chairman, I respectfully submit that there has not been one, not one American ship built for the Public Law 480 trade in the last 40 years. So it is not displacing any ship that was built for that trade. These ships that are basically in the trade are ships left over

from World War II that have been elongated and stretched out way past their economic life, or tankers built in the late 1940's and early 1950's that have been converted over to bulk carriers, and they are way past their economic life.

So in this trade there is not one ship that would be displaced that was built in the United States.

Senator STEVENS. If dry bulk vessels were included in the foreign-built provision, it would further reduce the cost to the farm community of our cargo preference provisions?

Mr. CALHOON. Generally that is correct, Mr. Chairman. It would reduce the cost to the U.S. Government under the agricultural appropriation, therefore making more money available to buy more grain under those programs.

But there are many other types of ships, Mr. Chairman, besides dry bulk carriers and liners. We think it should cover all types of ships.

Senator STEVENS. We are in agreement there, too.

Mr. CALHOON. Mr. Chairman, we suggest that instead of a window being opened, because we are not now talking about preserving the merchant ship construction base in the U.S. shipyards—there is not one under construction, so there is no base to preserve. It is gone—we would suggest that the legislation creating build foreign be made permanent, be a permanent addition. We fully recognize, Mr. Chairman, that there are two separate, distinct industries, one, the ship-operating industry, and two, the shipbuilding industry. We will support vigorously any aid that the U.S. Government wants to give to the American shipbuilding industry. But we do not think we help either industry by commingling the purposes of both.

You cannot commingle American Airlines with Boeing Aircraft. You cannot commingle the Southern Railroad with Budd. If you do, they both get in trouble.

And one of the largest costs we have in the United States now in ships is not the cost of ship construction. That is high enough. But it is the cost of money. Right now you can construct ships, foreign, for 8.5, or 9 percent interest, and if you wanted to construct them in the United States, you are talking about a minimum, a very minimum of 14.5 percent. And that is if there is a Government guarantee, on which I will comment later on.

Mr. Chairman, we are opposed to the reflagging of the two foreign-built cruise ships. I will not go into excruciating details on that. We have testified before this same committee before on it. We certainly support the reengining program.

Mr. Chairman, I am not so much in sympathy with any businessman who makes an unbridled decision, and that decision does not turn out right. Had the American shipowner made that decision to put the gas guzzling steam turbines in his ships, that was a business decision, and it foreclosed on farmers which should not be foreclosed on. But that decision was not made by the American shipowner. That decision was made by the U.S. Navy. They foisted steam turbines on those ships with regulations. They put the diesel manufacturers out of business. They put three of them out of business, and for 40 years, if you wanted to build a ship in the United States, you had to build it with steam turbines or you did not build.

So this is going not to correct an error of the shipowner but an error of the U.S. Navy.

Senator STEVENS. Would you support the elimination of buy American to bring in those other slow diesels now, though?

Mr. CALHOON. Yes, sir, we support the waiver of that provision, and I would like to address another question. I believe it was Senator Inouye who asked a question why we could not build these engines here. We can build them here, Senator. But to get a businessman to make the investment in the machinery—and it is the big milling machines that are the toughest investment—he has to be assured or he has to see a market of somewhere between 16 and 20 engines per year. If there were a market of 16 to 20 slow-speed diesel engines in the United States per year, you would have several diesel manufacturers setting up facilities to construct the engine in its totality in the United States.

I have talked to the chairman of the board of one major engine manufacturer from Switzerland, and that is his only criteria, that is, to see a sales base of 16 to 20 engines a year. Then he is in a moneymaking proposition. If that base is not here, then there must of necessity be a waiver.

And while I am on this, I might as well address the difference between the slow speed diesel and the intermediate speed diesel.

Mr. Chairman, the slow speed diesel manufacturers have made qualitative leaps ahead in the last 5 to 6 years in engine efficiency. The first big jump is what they call a long stroke engine. They added about 3 more feet to the stroke of the engine to squeeze out a few more Btu's of power. And all of these engines I am speaking of now, the large, slow-turning powerplants, are all two-cycle engines. Those engines are supercharged. They had a row of intake ports and a row of exhaust ports, but even with supercharging through the exhaust ports, it left unburned gas in the cylinders. About 3 years ago they introduced a two-cycle engine with exhaust valves, so you got straight through purging, and that increased the efficiency of the engines between 12 and 15 percent. The long stroke increased them about 10 percent.

And as they have made these changes, they have been able to go each step of the way to heavier and heavier fuels, thereby making the fuel cheaper per barrel. And another savings comes, Mr. Chairman, because the heavier the fuel gets, the more Btu's there are per barrel. So you get the efficiency on the barrel, and you get the double bang for your buck on the additional efficiency on the additional Btu's in the heavier oil.

On the intermediate speed diesel there are two problems. There are too many pistons, and they are moving too fast. If you can rub your hands together at 100 revolutions a minute, you do not generate much heat, but you rub your hands together at 500 strokes per minute or 1,000 strokes per minute, you begin to generate heat. Heat causes metal fatigue and metal failure. And with the modern technology we now have on the diesel engines, you can change a piston on a large, slow speed engine just as fast as you can change a piston or a liner on the intermediate speed engine, and on most ships, much faster on the slow speed because they are all mechanical tools, hydraulic tools, and the higher degree of automation has

been applied to the repair process, where on the smaller or intermediate size speed diesels, it is mostly manual labor.

Mr. Chairman, I go on want to say that one of our basic problems that has developed is the lack of leadership from this administration. We have supported this administration, we have tried to work with this administration, but we are not seeing and have not seen any maritime leadership, and to tell us that a regulatory reform bill is a maritime program is sheer insanity. Whatever program they had got got stuck in somebody's office in the White House and has never seen the light of day.

I would like, in closing, to just read on page 13:

> Title XI, a vital program for our industry, will be bankrupt in the first quarter of 1985, and nothing, I repeat, nothing is being done about it. Admiral Shear knows it, but he will not tell you. I just did.

Thank you, Mr. Chairman. I will be glad to answer any questions.

Senator STEVENS. You have explored this.

Is there some sort of transition program that would bring the slow-speed diesel industry into our country? You say they have to have about 20 orders. We do not have the prospect of having 20 a year without some massive program. I assume that we would have to have a number of years to do that. Is there not some way to encourage transition into partial U.S. assembly with eventual restoration of our diesel engine building capability?

Mr. CALHOON. Mr. Chairman, one of the major manufacturers a few years ago had taken a lease on a piece of property in California—I forget the name of the little town now—and they were going to put in an engine manufacturing plant. There was some program working before the Congress at that time, and the plant was going into—oh, it was Sunnyvale, CA, and it was going into Congressman McCloskey's district. He was the minority leader on the House side.

Congressman McCloskey opposed the legislation, and it was defeated, and they did not open the plant in his district. They gave up on building the total diesel in the United States, and that is the first time I heard that they had to have a market of 16 to 20 engines per year to be cost effective.

Now, that does not address the assembling of the engine, Mr. Chairman. This addresses the casting and machining. The casting of the cylinder liners, the cylinders, and the machining of the crank shaft are the two critical parts that we are at this point unable to do in this country.

Senator STEVENS. What is the real difference in the speed of these?

Mr. CALHOON. On a low-speed engine, Mr. Chairman, the ideal speed of the engine is between——

Senator STEVENS. I mean the speed of the vessels.

Mr. CALHOON. Oh, the speed of the vessel? You can have this vessel at any speed you want with a diesel engine now, Mr. Chairman.

Senator STEVENS. It is not low speed in terms of vessel speed.

Mr. CALHOON. No, sir, no, sir.

Senator STEVENS. It is low speed in terms of engine speed.

Mr. CALHOON. Yes, sir, the APL line ships that were built in Avondale have single screw diesel engines, and they have a performance speed of 24 knots.

Now, there is nothing to stop putting that same engine in twin screw. Instead of 24, it would probably make it 36 knots.

Senator STEVENS. And none of those are used in our naval vessels, are they?

Mr. CALHOON. I do not believe the U.S. Navy has any slow speed diesels.

Senator STEVENS. You have restated your opposition to the Cunard bill.

But I am still concerned that we have a situation where we have only two passenger vessels operating under U.S. flag, out of the 90 or so passenger vessels that are operating in our waters.

Is there any kind of reflagging provision that you would endorse—that is, vessels operated under U.S. laws with U.S. crews?

Is it the naming of the particular vessels you oppose or the whole concept that you oppose?

Mr. CALHOON. Well, I oppose two different things in it, Mr. Chairman. First off, it is a serious breach of the Jones Act. I do not support the Jones Act because it is an act of Congress. I support the Jones Act because the Jones Act is an act of Congress and was done to benefit the American merchant marine.

We are prepared to look at amendments to the Jones Act. But we think that should be done on a very comprehensive basis because there are a lot of tradeoffs when you come to the Jones Act and different competing interests. People who have invested large sums of money should be given some protection.

How much protection will always be arguable, but if we allow—that is my first objection.

My second objection, Mr. Chairman, is this would give exclusivity to Cunard Line. Cunard Line has been the most vicious competitor the American merchant marine has ever had in the north Atlantic. Cunard Line, Mr. Chairman, was the reason for the Merchant Marine Act of 1936. It was the hanky pankies that were going on in Cunard Line and the old American Mercantile Marine Co. that were disclosed by the Senator Black Commission that led to passage of the 1936 act.

So that is like a kid killing his mother and father and then coming before the court and pleading mercy because he is an orphan.

Senator STEVENS. Senator Inouye.

Senator INOUYE. Mr. Calhoon, I am intrigued by your closing statement:

> Title XI, a vital program for industry, will be bankrupt in the first quarter of 1985, and nothing is being done about it. The admiral knows it. He will not tell you. I just did.

Can you elaborate? What do you mean by that?

Mr. CALHOON. Yes, sir.

The title XI program was set up about 25 years ago, and it has operated successfully up until the current time, up until the first quarter of 1985. In each title XI loan, there was, I think it was, a half a percent of interest rates was put into an insurance fund to

guarantee the solvency of the fund in case there was a default so it would not have a call on the U.S. Treasury.

Mr. Chairman, that insurance fund has been used to keep ships in business, the subject judgment of whether they should be in business or not, and it has been used, in my opinion, to put ships in business, contrary, probably, to the intent of the act.

And I saw one document that showed just in one group of ships in which they were paying the current mortgage, the current title XI mortgage, out of the insurance fund. This group of ships had title XI mortgages in excess of $800 million. And the last payment that could be made would be in the last quarter of 1984. Then the fund would run out of money, so there would be default on this group of ships, and I do not know how many other groups of ships or barges, or the drill operation ships, the drilling rigs, in the first quarter of 1985 because they have no more insurance money to pay the title XI mortgages.

And particularly to the coastwise operator who must build his ships in U.S. yards, this is about the only relief he gets from the Federal Government is a Government-guaranteed mortgage. He cannot use the CCF funds. He does not get any direct or indirect subsidy that any other businessman does not get. His one special program that he does get is his title XI, and from the first quarter of 1985, that will be gone, and that will increase the cost of coastwise ships and increase the cost to transportation that Senator Stevens was just speaking of.

I do not think it is quite proper business to go into bankruptcy without even a board of directors, and I look upon the Congress of the United States as the board of directors of this program, being informed about it.

Senator INOUYE. Mr. Chairman, I would like to suggest that the staff look into this response and this situation.

Senator STEVENS. Yes; we will direct the staff to look into this, and if necessary, we will call a hearing on it.

We appreciate your calling it to our attention. It is the first time I have heard about it, too.

Senator INOUYE. I have many other questions, but I notice that we will have to be on the floor to vote. So I would like to submit my questions for the record.

Senator STEVENS. Yes; we have a series of votes coming up now, and Senator Inouye will submit his questions.

Mr. Calhoon, we thank you.

[The statement follows:]

STATEMENT OF JESSE M. CALHOON, PRESIDENT, NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. Chairman, I thank you for the opportunity to testify before this Subcommittee on the Merchant Marine Promotion Act of 1984.

Mr. Chairman, much in this legislation is absolutely necessary if we are to stengthen the American Merchant Marine. However, I am unable to support this proposed legislation as it is now written. I take this position with great reluctance, for you have long been a friend of the Merchant Marine and long been a proponent of strengthening our national security. I fully appreciate and recognize the spirit of constructive compromise which has motivated this legislation. And, as I just said, much of what you propose I can support with enthusiasm.

I believe, however, that there must be a comprehensive plan that brings all of our industry together. Partial solutions—even if they contain favorable elements as this

proposed legislation does—are not the way to rebuild our merchant fleet. You recognized this as well, for in your statement introducing this promotional act you noted that the act was "not a panacea for the long term". You also noted that "next year" the Committee would be looking into our industry's problems in a "comprehensive way".

Mr. Chairman, I stand ready to help in any way I can. And in this effort, your leadership will be essential.

Our industry is in dire straits, and something *does* need to be done. Burdened with the oldest fleet in the world, attacked by cutthroat foreign competition and state-controlled fleets that have no illusions about "free-trade", straight-jacketed by government regulations that the Ocean Shipping Act of 1984 did not even begin to touch, undermined by a Navy that would rather have its own merchant marine at four or five times the cost, our industry is lying in the hospital with the economic equivalent of terminal cancer.

On this point, Mr. Chairman, our industry for once is not divided; it is in unanimous agreement. We all know that the situation is desperate.

Let me now briefly discuss the four principal elements of this promotional act. I will begin with the two elements that are certain to be the most controversial.

The first is build foreign. As you know, I have long supported build foreign, and I find it both significant and important that you have included build foreign in your proposals. It is vital for the future of our industry. However, I believe that it is crucial that build foreign be permitted for all operators. Our maritime fleet is more than liner shipping. There are automobile carriers, LNG carriers, passenger ships, bulkers, and "conbulkers".

I would like to emphasize this point particularly with respect to bulk carriers, especially dry bulk ships. The dry bulk segment of our fleet is by far the weakest, populated largely by aging and dangerous rustbuckets that charge exorbitant rates, in part simply because they are old and inefficient. I am convinced—and I testified to this effect before this committee in June—that modern, fuel-efficient U.S.-flag bulk ships can be competitive internationally—if the ships we sail are built abroad.

Mr. Chairman, I emphasize this point about bulk ships, because our industry faces continual assaults on bulk cargo preference, particularly from farm state members concerned about the carriage of agricultural cargoes. The long-term solution is not to abolish cargo preference. The long-term solution is to bring our rates down with competitive, efficient vessels. Farmers and their representatives are patriotic, and they will ship on American vessels—if the rates are fair and competitive. These rates can be competitive, but we will get nowhere unless our operators have the least expensive, most efficient ships possible—and that today, Mr. Chairman, means building or acquiring these vessels abroad. So build and acquire abroad should be allowed for any U.S.-flag operator in the international trades, and the vessels of these operators must be given immediate access to government cargoes.

Mr. Chairman, building on your initiative, I would recommend that build foreign be of indefinite duration as well. We must squarely face the facts of life. Unless the U.S. Government wants to buy ships entirely and give them to operators—an unlikely solution—build abroad is a necessity, not an option.

Right now, there is not a single commercial ship on the orderbooks for a U.S. yard. Not a single ship! Construction differential subsidies have been cancelled altogether by this Administration, and currently one can build a commercial vessel abroad for about one-third the price of a similar vessel built here at home—and at lower interest rates. To provide an example, the two highly-advanced container ships that First American Bulk Corporation is having built in Korea will cost just under $30 million—with 80% of the cost financed by the Korean Eximbank at 9% per year. And if we were signing a contract today for these vessels, the price might even be less. The same vessels—constructed in U.S. yards—would cost in excess of $90 million a U.S. interest rates.

Furthermore, right now the world shipbuilding industry is replete with bargains. New U.S.-flag 65,000-ton bulkers can be bought for $20 million. But U.S. operators cannot take advantage of this shipping "white sale". They have to keep buying the most expensive equipment possible.

If these conditions continue—no CDS, no build abroad, and U.S. construction costs three times as high, then the U.S. flag will disappear almost entirely from foreign ports. Build foreign is the only realistic solution, and, as I said earlier, it is a necessity, not an option.

Some of our shipyards are in desperate trouble, but this is a task for the government and the shipyards. We simply cannot afford to tie shipbuilding and ship-operating together any longer when their problems and needs are separate and distinct. Look at the parallels. They are instructive. Is United Airlines tied to Boeing or

McDonnell-Douglas? Is Amtrak tied to Budd? Is Consolidated Freightways tied to General Motor or Ford?

Every other form of transportation in the United States can buy their equipment when and where they want. But not our industry! Why do we still persist in putting shipping in such a unique—and manifestly destructive—position? Ship-operating and shipbuilding are separate industries. And in today's world, to require either to bear the problems of the other is like asking a patient with bubonic plague to take care of a patient with infectious meningitis. What might be cured alone will surely succumb if it is forced to shoulder a double burden.

The second controversial element of this promotional package—allowing the re-flagging of two foreign-built cruise ships—is unacceptable to me and the Marine Engineers. We believe that it is fundamentally inconsistant with the very purpose of the promotional bill we are discussing today.

We oppose the Cunard bill, a bill that this committee held hearings on and then rejected just nine months ago, because it is special interest, not public interest, and because it is fundamentally inconsistent with national security.

How, I ask, is the purpose of a stronger merchant fleet served by allowing two foreign-built ships—ships of a vicious competitor for decades—to come in and dominate a trade heretofore reserved for U.S.-built, U.S.-flag vessels?

How, I ask, are the purposes of American industry and jobs served by allowing a foreign interest to gobble up exclusively, a tax advantage designed to assist Americans here at home or to gain access to many millions of dollars of low-cost U.S. capital?

How, I ask, is the shipbuilder served if these Cunard ships stop dead in their tracks the plans of several American builders to construct or refurbish U.S.-built ships? How is the national defense served if two foreign-built ships take the place of four to six U.S.-built ships?

And how, I ask, are the purposes of ship-operators and shipbuilders served by piecemeal destruction of the Jones Act? Make no mistake. If the door is open to one exception such as this, it will be open to all exceptions.

This Cunard proposal is not some innocent, harmless proposal that will provide a thousand jobs at no cost. This proposal is a dagger pointed at the heart of the Jones Act. I am willing to look at changes to the Jones Act. After all, the purpose of the Act is to help the maritime industry, not preserve a piece of legislation simply because it exists. But if we are to consider changes, then they must be part of a comprehensive plan to strengthen our industry.

I am willing to change the tools we use, but I am not going to throw away the one I have in my hand until I can acquire another.

Mr. Chairman, the two other elements of the promotional program proposed in this Act are far less controversial. I believe that there is widespread agreement that both would help ship operators and shipbuilders.

The proposal to replace or upgrade our more modern steam turbine vessels with fuel-efficient, slow-speed diesel-powered ships ought to be looked upon as something close to motherhood. It is important that you have included this proposal, for re-engining means fuel efficiency and slightly-reduced manning which improves our international competitiveness. It means jobs for shipyards that do the re-engining. It means jobs for merchant mariners on ships that would be forced from the fleet well before the end of their useful lives. It conserves energy which helps all Americans. And in terms of budget priorities and choices, it is the least expensive way to save the maximum number of ships.

I do, however, want to make two points clear. First, because there really is no slow-speed diesel industry left in the United States, current "buy American" regulations for these engines ought to be waived. And second, this re-engining proposal is not by itself a maritime program. It is not even the total of my maritime program. It is simply one of the many measures we ought to take to preserve our fleet.

The same is true for the proposal in this promotional package to allow the use of Capital Construction Fund deposits for the construction of vessels for the coastwise or intercoastal trades. Today, we have the strange situation where operators in these trades can set up a CCF but cannot use it to construct vessels for these trades. This proposed change would provide a new source of capital for Jones Act shipbuilding and assist U.S. shipbuilders.

However, at the same time, a balanced program ought to consider as well the use of CCF funds derived from other trades for foreign building. Furthermore, a balanced program that permits unlimited foreign building and removes burdensome MarAd restrictions also must consider ending the operating subsidies for companies that take advantage of these changes. This shows the kind of complex trade-offs

that are involved in any proposal, and this leads me back to the central point I want to make today.

Mr. Chairman, we cannot have one plan here and one plan there. Rebuilding our merchant marine and maritime industry will require a comprehensive package of proposals.

We have had proposal after proposal for the last three years—and the pace of their introduction seems to be accelerating. Many of these proposals may have something good in them, but every one, in one way or another, affects someone in our industry negatively.

With a comprehensive plan, we *can* join diverse measures into a coherent whole that unites all its participants by mutual advantage, *and* mutual sacrifice where necessary. For example, dribs and drabs of job offerings can never engine a major compromise on crew costs and benefits; ten thousand new jobs will. I happen to believe we can create those jobs.

Additionally, it takes no large dose of political realism to see that some of the measures we all might propose will not be adopted at once. Some—such as increased bulk cargo preference—may require evidence of compromise, efficiency, and progress in this industry, before they can be acceptable to the wider public. However, these proposals still must be part of the overall package. And there must be a clear and serious plan for the phasing of their implementation—so that the package as a whole can win support and so that those who sacrifice now can see genuine not illusionary promise for the future.

Mr. Chairman, I mentioned a moment ago the many maritime promotional proposals that have come out of the Congress in the past two or three years. Some I support; some I do not. Parts of some I support; parts of some I do not.

But I recognize that even those proposals I oppose are really a symptom of the problem—*not* the problem itself. The real problem, Mr. Chairman, is lack of leadership on the part of the Administration.

The fact that all these proposed pieces of legislation exist is symptomatic of a void. And it is both natural and constructive that concerned members of Congress should want to help our industry in this situation. But I think we all recognize that a serious and successful effort to rebuild this industry must begin with a serious and comprehensive Administration program.

We do not have that program today, and I see nothing on the horizon to indicate that we will.

I would like to believe differently, yet today we have a Maritime Administrator who does not administer; there is little for the Maritime Coordinator to coordinate; and four-year-old promises of a program to rebuild our industry remain, for the most part, four-year-old promises.

Existing maritime promotional policies have been dismantled and nothing new put in their place.

Maritime bureaucrats have been moved from one Department to another and this change paraded for three years thereafter as a major accomplishment.

Regulatory reform—one small part of what needs to be done, and even one small part of the regulations we ought to reform—is passed into law and paraded as the program itself.

The number of U.S.-flag vessels has dropped from 580 in 1980 to 533 today, and merchant marine jobs from more than 22,000 to less than 19,000.

Civilian contract manning of Navy fleet support ships—of which we have had clear and repeated promise—has been circumvented by a band of Navy admirals who place bureaucratic power over common sense and common interest.

The Navy—awash in billion-dollar cruisers and waste so extensive that it could fund hundreds of new merchant ships—requires military features on U.S. merchant ships and then tells hard-pressed companies to pay for them because it says it does not have enough money of its own.

Phase I and Phase II of the Maritime Program have come and gone. Where, I ask, are Phase III, Phase IV, or Phase V?

Title XI—a vital program for our industry—will be bankrupt in the first quarter of 1985. And nothing, I repeat, nothing is being done about it. Admiral Shear knows it, but he won't tell you. I just did.

Mr. Chairman, next year we must begin anew. We need a comprehensive plan from the Administration—with Congressional and industry input from the beginning. We need hearings that examine each of these proposals with careful consideration; they are too important to rush in haste. And then we all need to get to work.

I'm willing to sacrifice; the Marine Engineers are willing to sacrifice—if the sacrifice is fair and constructive.

We're willing to sacrifice, because we want to build—not fight for scraps that get smaller every day. We do not intend for it to be said that on our watch the last American ship with an American flag disappeared from our ports and the ports of the world.

Thank you, Mr. Chairman.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR INOUYE AND THE ANSWERS THERETO

Question. I believe it is accurate to say that "slow speed diesel" engines cannot be manufactured in the United States at the present time. I believe we can, however, build "medium speed diesels".

(a) In international liner shipping, for example, could U.S.-flag "medium speed diesels" be competitive with "slow speed diesels"?

(b) If not, and "slow speed diesels" are necessary for the U.S. liner fleet to be competitive, how can U.S.-flag operators do anything but build foreign?

I realize that the Avondale yard built three slow speed diesels for APL, but those engines were built by Sulzer Brothers, Ltd. of Switzerland, pursuant to a MarAd waiver of the 'buy American' provisions in our law.

Answer (a). No. In the last five or six years, slow-speed diesel manufacturers have made significant leaps ahead in engine efficiency. Not only do these new slow-speed diesels use fuel more efficiently, but they are able to use heavier and heavier fuel, thereby making the fuel cheaper per barrel. Furthermore, repairs of slow-speed diesels, when necessary, have a higher degree of automation than medium speed whose repairs are mainly manual labor.

(b) We can build slow-speed diesel engines here, but it will take a substantial market even to interest a potential manufacturer in producing these engines in the United States. I have talked to the Chairman of the Board of one major engine manufacturer from Switzerland, and he has told me that making these engines entirely in the U.S.A. can be a money-making proposition, but only with a sales base of 16 to 20 engines a year. If that base is not here, then there must be a waiver of buy-American rules. However, I should note that even the use of a waiver does not bode well for domestic construction. For example, the engines built under waiver for APL here at home were more than two times the cost for similar engines built in the Far East. Only with large-scale production is there any real hope of making U.S.-built slow-speed diesels competitive in price with those built abroad.

Question. The administration has said it supports the Jones Act. And yet, it also supports H.R. 89, which would breach the Jones Act by permitting foreign-flag vessels to serve Puerto Rico. And, of course, the proposal before us today would also breach the Jones Act by permitting two foreign-built vessels to be re-flagged U.S., with coastwise trading privileges.

It seems to me that once Congress opens the door to legislate an exception, simple equity makes it difficulty to close that door. H.R. 89 is, I believe, a case in point. If we legislate an exemption for Puerto Rico so that it may develop additional tourism and transportation resources, why shouldn't Hawaii, Alaska, Guam, American Samoa be given the same opportunity? Similarly, if we permit the two Cunard vessels to be re-flagged with coastwise trading privileges, why shouldn't we do the same for anyone else making such a request. And, if we do, what has happened to the Jones Act, and the national interest objectives it is intended to promote?

Answer. I oppose H.R. 89.

I believe that exceptions such as this one would harm the Jones Act and be unfair as well to other states and territories that abide by the Jones Act.

Question. Since Marad's budget request for ODS funds is based on a projection of how much money will be needed to liquidate obligations incurred in the next fiscal year, wouldn't Senator Stevens' proposal create a real risk that the annual ODS budget request will be unnecessarily high to ensure an "unobligated balance" which would be transferred to the "re-engining funds"; or, if the ODS budget request were "bare-boned", that there will be little or no "unobligated balance" to transfer to the "re-engining" fund?

Answer. I agree with the point in question number three that the re-engining proposal, as so drafted, would create risk of higher budget requests or a bare-boned budget with nothing left for re-engining. This program is of such importance and offers such ultimate savings to the government through a more competitive fleet that I believe that it ought to be treated as a line item in the budget with a constant progression of funds so that ship-operating companies and U.S. yards can plan

ahead on an orderly basis, taking advantage of economies of scale and making re-engining an accomplished fact as soon as possible.

Question. In addition to being eligible for ODS, a liner vessel built in a foreign yard or acquired foreign under Senator Stevens' proposal would not have to operate under the U.S.-flag for 3 years before it would be eligible to carry government preference cargoes. It would be eligible immediately.

However, any other U.S.-flag vessel which is built or acquired foreign, would still have to wait 3 years before it becomes eligible to carry government preference cargoes.

For example, vessels that Sea Lands builds foreign as well as the ones Lykes has contracted to build foreign will have to wait 3 years before being eligible to carry government preference cargoes.

Would Senator Stevens' proposal therefore give vessels built under it an unfair competitive advantage?

Answer. As I stated in my prepared testimony, I believe that the clear inequity described in this question could be remedied by allowing any new U.S.-flag vessel built abroad to be eligible immediately to carry government preference cargoes. Unless this change is made, Senator Stevens' proposal would give vessels built under it an unfair competitive advantage.

Question. Senator Stevens' proposal only permits liner operators to build foreign and receive ODS. In your view, should dry-bulkers and tankers be included?

Answer. Yes, dry bulkers, tankers—and, indeed, all kinds of vessels—should be included in build-foreign permissions. Build foreign should be permitted for all operators. Our maritime fleet is more than liner shipping. For example, the dry bulk segment of our fleet is by far the weakest, populated largely by aging rustbuckets that charge exorbitant rates. The way to make this bulk segment of the fleet modern and competitive, to get rates down, is to permit build abroad where the least expensive and most efficient vessels are made today.

Question. The shipbuilders' statement urges "a short-term initiative to build commercial ships in America of immediate usefulness for military sealift". In other words a 'build and charter' program.

(A) What specific type of commercial ship would be "militarily useful"?

(B) Would they be fast and therefore propelled by steam turbine engines, or slow speed diesels?

Answer (A). The premise of this part of the question and, indeed, the entire "build and charter" proposal, is fallacious. It assumes that "militarily-useful" can co-exist in the real world with "economically viable." It cannot. Military features aboard vessels, in one way or another, increase operating costs. Even such seemingly innocuous features as strengthened decks for potential cranes increases weight and hence fuel costs. Only if the U.S. Government is prepared to pay these add-on costs (if they could be calculated for a span of years) would these features not sink they very ships they are designed to enhance. This, however, in today's budgetary climate is an unrealistic proposal. Even today, the Navy—with tens of billions at its disposal—is unwilling to pay for military features aboard new merchant vessels. Furthermore, Navy involvement in such a military features program—however reasonable at the outset—would be like the proverbial camel's nose under the tent with a steady progression toward more and more goldplating and fewer and fewer vessels—precisely the wrong direction we should take in view of the Soviet submarine threat.

To be sure, some vessels are of more immediate military usefulness than others. A RO/RO vessel is about the best—for vehicular cargo, a break-bulk for undeveloped or damaged ports, a full container ship for moving certain cargo into modern automated or undamaged ports. It would be foolhardy to choose one kind, since all are needed for various situations, and it would be even more foolhardy to expect operators to operate for years vessels for which there might not be an appropriate trade in which to operate—unless, as I said before, the U.S. Government wants to subsidize these operations from the first day to the last.

The Navy record as regards militarily useful vessels is dismal. It insisted on speed in U.S.-flag vessels, and when the oil crisis hit, our fleet was stuck with economic dinosaurs. It insisted that any ship that could not transit the Panama Canal was not militarily useful—and we were frozen out of the large tanker business.

There is nothing wrong with encouraging a good mix of ships, but unless the Navy wants to foot the bill for the life of the vessel (not just construction) it ought to inventory the fleet that economies produces but not meddle in it. Other methods to encourage the proper mix of ships—such as targeted cargo reservation—are far better tools, and they will mean more ships. One should remember that at Dunquerque no one asked whether a vessel was militarily useful. They took what they had, and what they had did very well indeed.

(B) Today, "slow-speed" diesels do not mean "slow-speed" vessels. The slow-speed refers to engine speed. Diesels can drive cargo ships as fast as steam turbines, and they are much more fuel efficient—a critical consideration if these build and charter vessels are going to operate commercially as well.

Question. Under the "build and charter" program would it also be necessary to enact additional cargo preference laws to ensure that those vessels are used?

Answer. Definitely—unless the Navy or the U.S. Government are willing to pay the costs of operating these vessels. Additional cargo preference measures would be required so as to provide sustained employment (cargo) for vessels in the build and charter program. In order to maintain a sensible mix of vessels (i.e., RO/RO's as well as container ships), cargo preference would be essential.

I would urge, however, that the Congress look carefully at our previous build and charter experience, before embarking on a new one. I refer specifically to the Mariner program which was a clear loser for the U.S. in financial terms. The Mariner program, incidentally, had at least one historical distinction. Its vessels were the first to use in excess of a barrel of fuel per mile; they broke the "barrel-per-mile" barrier. With this kind of record, I am highly dubious about creating another program dominated by Navy and bureaucratic designs.

Question. Both the shipbuilders and the SIU recommend a "build and charter" program. If the government were to build these vessels, and then charter them at low rates, should the vessels be allowed to operate in the Jones Act trades?

Answer. No. Such a development would be highly unfair to existing Jones Act operators who would then be operating at a competitive disadvantage.

Question. Under the "build and charter" program recommended by the shipbuilders and the SIU this morning initial funding would come from reprogramming funds previously appropriated to the Department of the Navy.

Subsequent funds for the program would come from the money the government receives from the charter or sale of the vessels. In other words, a revolving fund.

Inasmuch as the charter rates would not be high enough to recapture the cost of building the vessel, and, in the event of a sale, the selling price would have to be well below the cost of construction, is it realistic to expect that sufficient money will be paid into the revolving fund to allow for much ship construction after the initial funding has been exhausted?

Answer. No, it is not realistic. Rather than a revolving fund, the better analogy is a corkscrew pulling funds in one direction—out.

Senator STEVENS. We thank all of our witnesses today very much. It has been nice to see you all.

This closes this hearing.

[Whereupon, at 12:25 p.m., the subcommittee recessed, subject to the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF TALMAGE E. SIMPKINS, EXECUTIVE DIRECTOR, AFL-CIO MARITIME COMMITTEE

We cannot support the use of Capital Construction Funds to construct vessels for the Jones Act trade. Additional incentives to operators to build tankers for this trade are not necessary. The Jones Act, as it is currently constituted, is the demand in itself. Additionally, if this amendment were to pass it would give an added advantage to the large diversified tanker companies at the expense of the independents.

We have supported in the past and will continue to support the ODS operators in their efforts to upgrade their vessels but with the elimination of the CDS it is essential that these operators be permitted to upgrade their fleets at competitive prices. The temporary waiver in S. 1234 is, in our opinion, the most equitable solution.

We also support the program for upgrading of the vessel propulsion machinery and the 15 percent tax credit for the operators who take advantage of this program even though we know there will only be a few companies participating in the program.

Our survey of the companies we are in contact with leads us to believe that the "reengine" program, while it sounds great in theory, has a very limited use in actual practice. We are, however, opposed to the use of ODS funds for this purpose.

As we testified on June 28, 1984, it is our belief that before the unspent or excess ODS funds in the current fiscal year are used for something other than what they were initially intended for, or returned to the U. S. Treasury, every effort should be made to put up the past service pension fund liability generated by the subsidized operators over the years.

Whether the government bureaucrats want to recognize it or not, the U.S. Government has contributed substantially to the unfunded past service liabilities that exist in the maritime pension plans and it is the Government's obligation to assume this cost.

During World War II, the Korean War and the Vietnam War, the vast number of ships that were operated for the Government's account made no contributions or very minimal contributions to the pension plans but at the same time created enormous liabilities. It is our contention that the Maritime Administration should take the necessary action to fulfill its obligation in this matter and the 1936 Act gives it the necessary authority to do so.

The inclusion of the private bill that permits Cruise America Lines and no one else to reflag two foreign-flag passenger ships under the U.S.-flag and engage in our Jones Act trade is totally unacceptable to us.

We have on many occasions, along with the shipyards, the support industries and the overwhelming majority of the maritime industry, made what we consider to be a very compelling case on why the Jones Act should not be altered. Every time an American operator gets close to building or refurbishing a passenger ship in the United States, as if on cue, the big push begins for exceptions to the Jones Act. This, at least, has been the case for the past five or six years.

It was heartening to us to hear the President in 1980 say, "The principle that a nation's own ships should carry its coastal trade, presently embodied in the Jones Act, has been part of this country's maritime policies since the early days of the Nation. I can assure you that a Reagan Administration will not support legislation that would jeopardize this long-standing policy or the jobs dependent upon it."

Additionally, in May of 1982, the President's maritime spokesman, DOT Secretary Drew Lewis, stated, ". . . the Administration reaffirms the sanctity of the Jones Act . . ."

We suggest that you, as Chairman of the Committee, declare a two to three-year moratorium on any breaks in the Jones Act. We would also suggest that this moratorium specify that if at the end of this stipulated time no American-flag passenger operations have been initiated, your Committee would then enact legislation that would allow, for a two-year period, any passenger ships that could pass U.S. Coast Guard safety regulations to register under U.S.-flag with coastwise privileges. This,

in our opinion, would be a more equitable way of approaching this problem and it would eliminate the shadow of suspicion associated with legislation which benefits only one or two individuals. Additionally, this would give your Committee adequate time to undertake a complete review of the American cruise trade and determine why U.S.-flag passenger ships do not exist.

Although we support certain features of this legislation, we must oppose it because of our concern for the negative aspects to our industry.

Thank you.

STATEMENT OF RICHARD H. HADLEY

Members of the Committee, my name is Richard H. Hadley. I own United States Cruises, Inc., which owns the S.S. UNITED STATES. I testified before this Committee in September of 1983, when it was considering the so-called "CUNARD" legislation. I opposed. S. 1234, before you now also contains the CUNARD legislation. I am still opposed.

I am a business man and an entrepreneur. From that perspective I would like to tell you why I think this is undesirable legislation.

As a business man, the Congress sometimes helps me, but it sometimes it hurts me, too. As an entrepreneur at times it encourages me and at times it discourages me. Not often, however, does the Congress provide an incentive with one hand and simultaneously take it away with the other.

But that is the case with this legislation. I have invested more than $12,000,000.00 in the S.S. UNITED STATES. I intend to invest a significant amount more. By the Fall of 1986, when the UNITED STATES will return to service, about $140,000,000.00 will have been spent toward her refurbishment. This will be without U.S. mortgage guarantee assistance.

I am involved in this venture largely because of measures the Congress has enacted in an apparent effort to encourage a revival of the U.S. passenger ship industry. In 1979, the Congress permitted the reflagging of four U.S. built passenger vessels including the S.S. UNITED STATES. In 1981, it promulgated investment tax credit and accelerated cost recovery measures which have particular reference to ship building and ship owning. In 1982, it permitted twenty-five percent (25%) of the limited partners of U.S. ship owning partnerships to be non-U.S. citizens. And, in 1982, it restored the personal tax deduction for attendance at seminars, conventions and business meetings on board Jones Act ships.

The combined effect of these provisions is at least four fold: First, a legitimate tax shelter pool for investment in a revival of the U.S. passenger ship industry was created. Second, limited foreign investment is attracted. Third, an exclusive market that never before existed, a tremendous economic incentive for investment, is established. Fourth, the pressure for government subsidization of passenger ship construction, a failed policy, is reduced.

There are now several serious efforts in development to put U.S. built luxury cruise vessels into the Jones Act trade. They represent a combined near-term investment of about one billion dollars. There were no such efforts prior to these provisions being enacted. So these Congressional policies are working. You can have faith in them. I should add, too, that the test of the business viability of these efforts should not be whether their full development coincides with the political timetables of those who wish to reflag foreign ships.

I am advised that the restoration of the personal tax deduction can provide about forty percent (40%) of the business of a U.S. cruise vessel. With marketing creativity and innovation such as fly/sail variations, it could be more. That gives real meaning to the concept of Jones Act protection. One pays a premium for that protection: the relatively high costs of U.S. labor, shipbuilding and materials. But it is worth it.

Now comes the CUNARD bill which I believe is an effort of a major British shipping conglomerate to do by indirection what it cannot do by direction, namely, penetrate this exclusive market without paying the cost premium of U.S. shipbuilding. This is a very shrewd business initiative. The CUNARD vessels would gain a lucrative new market, indirectly subsidized by the U.S. Treasury. They would have an overwhelming cost competitive advantage. Significantly, too, CUNARD would gain access to at least $100,000,000.00 of low-cost U.S. capital.

But for the Congress this is a very poor business and policy proposition. Passage of this proposal will have no impact on U.S. tourism because these CUNARD ships already actively court the U.S. market and because new regulations currently being promulgated by the Coast Guard would permit non-Jones Act ships to visit contigu-

ous American ports. Passage also will have a very minimal effect on U.S. ship building since the CUNARD ships are fully operational and have been refurbished overseas very recently. It will also have a limited impact on defense since these ships are already available to the United States, either through the NATO shipping pool or other arrangements. It will have a very limited impact on job creation, too, because it will prevent other U.S. ventures from being realized.

More significantly than all of the above is the fact that passage of this proposal will devalue seriously the perceived protections of the Jones Act and, accordingly, will greatly discourage the private investment Congress has been trying to encourage. Specifically, it probably will mean the end of several of the projects that have been trying to get going in the last couple of years because the financing for those projects will not be forthcoming.

The very pendency of this legislation already has had a chilling effect on potential investors. My investment advisers are E.F. Hutton and Morgan Stanley. They report to me that this legislation has created doubt about the economic viability of U.S. cruise enterprises and, more importantly, it has created serious doubt about the signals the Government is sending. Congress is undermining the Jones Act by devaluing it and is discouraging enterpreneurs from taking risks to restore the American cruise industry. Moreover, it is penalizing entrepreneurs for playing by the Jones Act rules, as I have.

I intend to go forward. The S.S. UNITED STATES will be restored to service. But how I will accomplish that and where I will operate are decisions I necessarily must defer until the ambiguity of sending Congressional actions is resolved. That is my prerogative as a businessman.

A final note. I had hoped to build a passenger fleet. I have communicated to Senator Stevens my willingness to commit to build another vessel in connection with modification of the existing CUNARD proposal. Now, however, I seriously doubt if I will build another vessel, let alone a fleet. The reasons relate not just to the poor financial prospects created by the implied threat of measures like the CUNARD bill, but also because of the bureaucratic and administrative nightmares which confront entrepreneurs. The policy initiatives launched in 1981 are being lethargically implemented by other branches of the government. Policy enactment and policy implementation are different and difficult tasks and they require persistence, time, and effort. It is inconsistent and confusing to see Congress sounding the death knell for policies only in their infancy. I think we should step back and give them a chance to work before abandoning them.

Thank you very much.

STATEMENT OF JONATHAN M. ROSS, P.E. MANAGER, "GALVESTON" PROJECT, GIANNOTTI & ASSOCIATES, INC.

Mr. Chairman and Members of the Subcommittee: My name is Jonathan Ross. I am manager of the project to design, construct and operate the United States-flag cruise vessel M/V *Galveston*. This vessel will be built in the United States by Tacoma Boatbuilding Company and will operate in the domestic cruise trade.

We appreciate the opportunity to submit our views on that aspect of proposed maritime promotional legislation which relates to the passenger cruise industry. I am referring to the proposal to allow two foreign built Cunard vessels to operate in the domestic trade on a permanent, unrestricted basis with full Jones Act privileges.

Giannotti & Associates, Inc. strongly opposes this proposal. We are firmly convinced, as we believe we have demonstrated through the *Galveston* Project, that the United States-flag cruise industry can be developed by the construction and reconstruction of vessels in American shipyards. We have signed a contract with Tacoma Boatbuilding to construct the vessel at an economical and competitive price; we have a commitment from Bank AmeriLease Group, Bank America Companies, to provide the financing for its construction; and we expect an interim response to our Title XI application by September 30, 1984. In short, we believe the Cunard legislation is totally unnecessary. We are further convinced that if the Congress specifically rejects the Cunard proposal, it will send a clear signal to the maritime industry and lending institutions that the Jones Act will be upheld and people should make their plans accordingly.

We all need to know that vessels built in compliance with American law will not be competing against vessels operating through special exemptions from American law.

ECONOMIC BACKGROUND

One may reasonably ask, "Why is it economically feasible to construct and operate an ocean cruise liner in the United States?" Several factors make *Galveston* economically viable today:

The growing market for cruises, especially three-, four- and seven-day cruises, which do not require the substantial investments of time and money by the passenger associated with the traditional long cruises. In particular, short cruises are attractive to the many thousands of middle and upper income residents located within driving distance of Galveston, Texas, the home port of *Galveston*.

The tax deduction allowance of up to $2,000 per passenger of all business expenses incurred aboard U.S. flag cruise ships calling on American ports. These expenses include conferences, symposia, training seminars and business meetings in general held aboard such ships.

The urgent need for new business among many U.S. shipyards, which has resulted in very competitive and attractive construction cost quotations and building schedules.

The strong desire of maritime unions to obtain work for their members, which makes possible attractive labor rates and labor agreements for cruise ship operators.

The major redevelopment by Galveston of its waterfront, designed to attract additional tourism to the City.

The high level of corporate activity combined with a large population with high personal income in cities close to the Gulf of Mexico, where *Galveston* would have ports of call.

These factors encouraged Dr. Julio G. Giannotti (President of Giannotti & Associates, Inc.) and Mr. Edward W. Hazard (President of Jamestown Metal Marine Sales, Inc.) to initiate the *Galveston* project and commit their companies as active participants. In addition, they have themselves assumed equity positions in the new cruise line.

OPERATIONAL REQUIREMENTS

The ship's general operational requirements are a direct outgrowth of optimizing a number of relevant economic parameters, market analyses, ship size, ship facilities, crew costs, construction costs and financing. Examples of operational requirements for the design of *Galveston* include:

800-passenger capacity

3-7 day cruise duration

Conference facilities

Ports of call in the Gulf of Mexico

Full service, air conditioned and well-appointed recreation, entertainment and shopping facilities

One-class passenger accommodations with outside staterooms maximized

18-knot top speed.

These are so-called "owner's requirements." In addition, there are detailed guidelines, regulations and laws which also are operational requirements. These originate from the American Bureau of Shipping, the U.S. Coast Guard, the Public Health Service and other regulatory bodies. Also, the requirements of maritime unions must be considered. As much as possible, all pertinent operational requirements are gathered and listed as input to the design process.

HIGHLIGHTS OF THE DESIGN

Galveston has followed the traditional sequence by which ships are designed: concept design, preliminary design and contract design. At each stage the design is further refined and stated in greater degrees of detail. Presently, the design has been completed through "contract design". At this stage, *Galveston* is defined by a series of plans and a detailed specification text. These documents have enabled the shipyard to estimate construction costs to a level of accuracy necessary for signing a fixed price contract. The final stage of design, the "detail design", will be performed mainly by the shipyard, but with continuing technical contributions by the naval architectural design firm. The detail design effort will result in the working drawings from which the ship is actually constructed. These drawings will reflect certain details which are unique to the particular shipyard.

At the present "contract design" stage of development, *Galveston* has reached a stable configuration which can readily be described. Many of the design features are communicated simply by showing the ship's outboard profile. The ship is characterized by a raked bow, modern superstructure lines, and an abundance of windows—

many of which are to passenger staterooms. Features not immediately evident from the outboard profile include:

Underwater lines feature a well-developed bulb forward to reduce resistance.

Structure consists of welded steel transverse and longitudinal framing for the hull and superstructure.

Propulsion and ship's service power come from four medium-speed diesel engines which power four generators. The two propellers are driven through gears by four electric motors.

Public spaces include large dining room, theater, conference rooms, swimming pool, lounges, bars, shops, exercise room and others. Separate dining rooms serve the deluxe cabin passengers, ship's officers, and crew.

Over 90 percent of the staterooms are placed outside and are provided with a window. Most are doubles, with some having a fold-down berth for a third passenger.

Galley, main dining room and daily stores are all on one level for ease of access for efficient service. The main dining room is low and amidships for minimum motion and maximum passenger comfort.

Motion control is provided by active fin stabilizers and passive bilge keels.

Other characteristics of the design include the following:

Length overall	570'-0".
Length between perpendiculars	460'-0".
Beam, molded	82'-0".
Depth, molded	65'-6".
Draft, design, molded	18'-0".
Light ship weight	9,524 LT.
Total displacement at design draft	12,470 LT.
Type of machinery	Diesel electric.
Propellers	2.
Installed shaft power (ABS max. continuous)	10,500.
Propeller rpm at max. continuous shaft power	150 rpm.
Sustained sea speed	18 knots.
Endurance at full load draft	6,000 nautical miles.

Complement:	
Deck and engine department	51
Steward department	251
Passengers	800
Total accommodations	1102
Gross tonnage (U.S. approximate tons)	19,000
Net tonnage (U.S. approximate tons)	8,000

BUSINESS AND FINANCIAL ELEMENTS

Conduct of market analysis and economic study.

Signing the shipyard contract.

Carrying out liaison with the candidate union.

Filing the MarAd Title XI application.

Arranging for construction financing.

Developing a business plan.

The market analysis and economic feasibility study were conducted by the independent firm of Simat International, Ltd. The effort was headed by the firm's president, Mr. John H. Leeper, who determined that the proposed vessel could operate with acceptable return on investment at 80 percent utilization of passenger accommodations. This report further concluded that the American cruise market will continue to grow in the foreseeable future and that the *Galveston* project constitutes a reasonable investment risk.

The shipyard contract signed on July 17 provides for the construction of *Galveston* Tacoma Boatbuilding Company at a price of $110,000,000. The contract will start when the financing arrangements have been completed and Giannotti & Associates, Inc. has received and accepted a commitment of Title XI guarantees by the Maritime Administration. Vessel delivery will occur thrity-six months after the start of the contract.

The union selected for providing the ship's licensed officers is the International Organization of Masters, Mates & Pilots. Giannotti & Associates has maintained a

dialog with the union at its highest levels, and the union has reviewed the proposed licensed (supervisory) manning requirements.

The Application for Title XI Loan Guarantees was filed with the U.S. Maritime Administration on June 15. This application requests guarantees on construction period financing and mortgage period financing for *Galveston.* The application includes text and design drawings and is a detailed and substantial package of financial, business and technical information concerning this project. An interim response is expected from the Maritime Administration by September 30.

Construction financing is being arranged with BankAmeriLease Group, BankAmerica Companies. A signed agreement between BankAmeriLease and Gulf Pacific Cruise Lines, Inc. proposes the use of a tax leveraged lease as the means of financing to be developed in conjunction with the Title XI guarantee.

The business plan for operating *Galveston* has been developed to a basic level. The vessel is to be operated by Galveston Cruises, Inc. Present plans call for ship management to be under the direction of Detectra Shipping Ltd. which is a Miami based group providing ship operations and management services to several ship owners, including cruise lines. Ticketing and reservations services will be carried out by Kingwood Travel, Inc. of Houston, Texas. Kingwood Travel specializes in the promotion and sales of cruises worldwide. Hotel services and conference support functions are to be provided by Marriott Corporation. Marriott's experience and excellent reputation in providing hotel and conference services are well known. Its credentials in the realm of the maritime cruise industry are enhanced by its ownership and operation of Sun Line Cruises, Inc.

CONCLUSION

The *Galveston* project is well on its way. The contract design package is complete; the shipyard contract is in place; union liaison is at an advanced stage; the Title XI application has been submitted and is being processed; construction financing is in progress by a recognized banking leader; and a vessel operations business plan is being refined. At this stage we find the outlook extremely positive for a new U.S.-flag cruise liner to be on line in the near future and operating at a handsome profit.

STATEMENT OF PAUL J. BURNSKY, PRESIDENT, METAL TRADES DEPARTMENT, AFL-CIO

Mr. Chairman, Members of the Subcommittee, I present these views on the Stevens amendment No. 3386—the so-called "Merchant Marine Promotion Act of 1984"—on behalf of the twenty-one international and national unons that make up the AFL-CIO Metal Trades Department. As you know, we represent production workers at U.S. naval shipyards and at major commercial shipyards under collective bargaining agreements negotiated by our local and district councils.

Four years, ago, Presidential candidate Ronald Reagan sought political support from a broad segment of the commercial shipbuilding industry, from seagoing and on-shore maritime labor organizations, and many other groups genuinely concerned over the dangerous decline of our shipbuilding mobilization capability and its impact on our world trade potential and our ability to rejuvenate our U.S. merchant marine. Others were increasingly alarmed over the dangers to our national defense through erosion of the necessary skills to maintain a shipbuilding presence in the U.S. yards.

Many diverse maritime-related groups took the Reagan campaign promises at face value and pledged their support of his candidacy. The rhetoric certainly sounded positive and seemed to reflect a genuine concern and understanding of the complex economic, military, and technical issues involved in modern shipbuilding. Here is what candidate Reagan promised in 1980—

"To maintain a strong shipbuilding base";
"To ensure that U.S. ships carry an 'equitable portion' of our foreign trade";
"To continue subsidies to ensure cost competitiveness of U.S.-flag operators";
"To increase use of merchant marine in naval support missions";
"A unified Navy-merchant marine shipbuilding program"; and
"To revitalize our domestic water transportation system".

Reagan's record of broken 1980 campaign promises is a matter of public record, highlighted by policy recommendations to Congress that have included "build foreign authority," "user fees" for port dredging and maintenance, "CDS payback authority," opposition to reasonable "cargo preference for U.S. exports," a weakening of ODS policies, and the elimination of CDS subsidies under Title XI of the Merchant Marine Act. Added up, these Reagan Administration policies have repudiated every major campaign pledge made by candidate Reagan in 1980.

The shipbuilding industrial base, except for Navy work, has been weakened; over twenty U.S. shipyards have gone out of business since 1981; commercial shipbuilding has virtually ceased to exist in U.S. yards, while tens of thousands of skilled shipyard workers have lost their jobs, and seen them "exported" to foreign-owned or heavily subsidized shipyards in Japan, South Korea, and other countries.

The Reagan Administration has strongly advocated these destructive "build foreign" policies for commercial vessels, and resulted in the building of scores of ships in sweat-shop foreign yards at a loss of billions of dollars of desperately-needed construction in U.S. shipyards.

Instead of strenthening our shipbuilding base, our U.S. merchant marine, and our national defense—as promised by candidate Reagan four years ago—Reagan Administration actions have done just the opposite. Our shipbuilding industrial base has been eroded, our merchant marine crippled, and our national defense has been dealt a severe blow through the loss of thousands of skilled shipyard workers, once a part of the U.S. rapid mobilization base that could provide emergency shipbuilding capability.

The crucial problems of shipbuilding, our U.S. merchant marine, and defense mobilization capability that candidate Reagan addressed in 1980 are still with us today—except that they have worsened seriously because of the Reagan Administration's gross failure to deal with them in any comprehensive way that serves our Nation's best interest.

Fewer than three percent of our U.S. exports are carried in U.S.-flag ships, and our experienced pool of seagoing maritime labor continues to shrink. Yet the Reagan Administration continues to oppose reasonable cargo preference or reservation policies that would place our country on a more even footing with virtually every other country in the world that already has such cargo preference policies in effect.

It should by now be clear to all, Mr. Chairman, that the complex and inter-related problems of national defense, shipbuilding industrial base, maintenance of skilled shipyard and seagoing labor, a strong U.S. merchant marine, expanded foreign trade in U.S. vessels, the deficit in our balance of trade, cargo preference, deep port development and maintenance, and other related issues cannot be solved without a broad, comprehensive program strongly advocated by a wise President, a cooperative Congress using bipartisan sponsorship, and agreement by any segments of the public having a direct stake in the outcome.

These massive problems cannot be dealt with piecemeal any more than can the requirements for survival of American shipyards be solved by telling ship operators that they can have their ships "built foreign;" nor can our U.S. merchant marine be rebuilt by permitting the re-flagging of foreign built ships for the American coastal trades. These special interest, piecemeal legislative measures can only make the problem that much more severe.

I turn now to address these hearings on amendment No. 3386, in the nature of a substitute for S. 1234, a bill to license the vessel *Norden* for employment in the coastwise trade, is entitled the "Merchant Marine Promotion Act of 1984;" it was introduced just prior to the last Congressional recess on June 29, 1984. They are but another example of the "piecemeal" approach that would provide great benefits to American-flag ship operators and to those interested in the Cunard ships' re-flagging, but do little for the public interest or contribute to the ultimate solution of the larger problems described earlier. They would further weaken the basic intent of the Jones Act.

For these basic reasons and for others discussed below in my statement, the Metal Trades Department, AFL-CIO must vigorously oppose most of the provisions contained in amendment No. 3386 to S. 1234, not only because it offers only a much too late, piecemeal approach, but also because its component parts are flawed, illogical, and unworkable.

The one exception is the portion of amendment No. 3386 that would establish an energy conservation re-engining program, making U.S. shipowners eligible for Federal grants to have such re-engining work done in American shipyards. It would be necessary for fuel savings to be at least twenty-five percent in order to qualify. The grants would be equal to the difference between the cost of having the work done in a U.S. shipyard and a foreign yard, providing the total cost of replacing or upgrading the machinery does not exceed fifty percent. In addition, shipowners would also be eligible for a fifteen percent energy tax credit.

While we support the concept of the re-engining program that would reduce operating costs of our U.S.-flag fleet and make it more competitive by encouraging the conversion to low-speed diesel engines, we seriously question the wisdom of using unexpended ODS funds for such re-engining grants. There are other pressing re-

quirements for such funds that must be accommodated, such as the use of ODS monies to promote maritime employment opportunities, for the industry's large unfunded pension obligation, and for meeting the medical care needs of American merchant seamen.

Mr. Chairman, I have already dealt with the issues which the Metal Trades Department feels are paramount in the unwise and unjust pursuit of any "build foreign" policy under any terms and so we must also register our strong sense of outrage at the 18 month "build foreign" authority contained in Section 3 of amendment No. 3386 to S. 1234. As you well know, there is no major commercial vessel being built or on order at any U.S. shipyard at the present time. This fact is a national scandal of major proportion and a disgrace to our national leaders of what was once the greatest maritime Nation in the world! The Administration's insistence on "build foreign" authority in the 1981 Budget Reconciliation Act, plus special interest rides permitting the acquisition of other foreign-built mechant ships with re-flagging permission, all with the outrageous authority to receive ODS funds, is more than enough damage to our U.S. shipbuilding mobilization base. The recent reports filtering out of the Joint Chiefs of Staff's recent military exercise, entitled "Pressure Point 84," clearly demonstrate what such special interest policies of the Reagan Administration have cost our Nation in defense preparedness. The scenario clearly revealed a shocking lack of dependable, emergency-ready military sealift capability under which hundreds of thousands of tons of urgently needed supplies of the theoretical Far East war zone piled up in West Coast ports for lack of cargo vessels. The exercise projected that such vital supplies would have been eleven days late in reaching their destination! We note that the Senate Appropriations Subcommittee on Defense, chaired by the distinguished Chairman of this subcommittee, has taken action in the fiscal 1985 appropriations bill to add a $500 million merchant ship construction revolving fund, subject to approval of "pending legislation for the construction of commercial vessels which emphasize military utility." Funds for such revolving fund, we understand, will come from prior Naval shipbuilding savings. We are pleased to note this response to our urgent shortfall in smaller, militarily-useful commercial vessels and to see that provision makes certain that they will be built in U.S. shipyards, by U.S. workers, manned by U.S. citizen crews, and operated by U.S. companies. However, as we all know, it is only a small beginning. Such programs must be included as important segments of an overall, comprehensive program to deal with all elements of the problems of our shipbuilding industry, our U.S. merchant marine, and our national defense requirement.

Section 7 of the amendment No. 3386 to S. 1234 is totally unacceptable to the Metal Trades Department, AFL-CIO. Such special interest legislation has no place in any serious proposal to deal with the complex problems of shipbuilding, maritime, and defense. We have set forth our strong objections to the re-flagging of the Cunard cruise ships—the *Countess* and the *Princess*—on many previous occasions. Most recently, on June 8, 1984, we wrote to each Senator a detailed letter summarizing our opposition to its most recent incarnation, the Biaggi amendment to H.R. 5167, the Fiscal 1985 DoD authorization bill, and enclosing material explaning our position.

In addition to our opposition to this blatant attempt to violate the Jones Act and to choke off efforts to revive the U.S.-flag cruise ship industry, I wish to have noted the fact that it is also opposed by more than eighty others—AFL-CIO unions, shipbuilding companies of the U.S., and supplier companies. I also include with my statement the colloquy on the Senate floor on June 20, 1984 on this subject between Senators Gorton, Tower, Inouye, and Nunn, and a copy of a letter that I received in opposition to the Biaggi amendment and the re-flagging of the two Cunard cruise ships from Senator Strom Thurmond and ask that this information also be make a part of hearing record.[1]

In conclusion, Mr. Chairman, we are convinced that there must be Presidential leadership, Congressional leadership, and cooperative statesmanship on the part of ship owners and operators, shipbuilders, shipbuilding industry suppliers, and labor—shipyard and seagoing—if there is to be forged a comprehensive, equitable, and workable shipbuilding and maritime program that is essential to resolving the present complex array of problems adversely affecting all of us. Unfortunately, I do not see much leadership or cooperation now in existence. Hopefully, such an alliance can be achieved over the coming months so that these vital issues can be promptly and successfully addressed early in the 99th Congress. In the meantime, however, it is crystal clear that these proposals for additional "build foreign" au-

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[1]The attachments have been retained in the Committee files.

thority, the re-flagging of foreign-built ships for coastwise trading privileges in the U.S., and the giving of immediate access to government-impelled cargoes to such foreign-built re-flagged vessels would only worsen the present situation and would be wholly inconsistent with efforts to preserve what precious little is left of our vital shipyard mobization base—so crucial to our national defense.

Thank you for the opportunity to present the views of the AFL-CIO Metal Trades Department for your consideration.

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